

BUSINESS & INDUSTRY
Use Forecasting to Plan for
Uncertainty 32

GOVERNMENT / ANALYSIS
CPAs' Role in Assessing
Financial Interdependency 48

TAX / TECHNOLOGY
Results of Tax Research
Survey 56

JOURNAL OF ACCOUNTANCY

A Publication of the American Institute of CPAs • OCTOBER 2011



TAP DANCE

CPAs Weigh Pros and Cons
of Apple's iPad as a
Workplace Tool

26

117
491

*****ALTO**SCH 5-DIGIT 48220
02244061 A100747 14 1 2785
MARYGROVE COLLEGE
LIBRARY SERVICES
8425 W MCNICHOLS RD
DETROIT MI 48221-2599

P10



DEFY LIMITATIONS.

SAAS FOR THE CS PROFESSIONAL SUITE® FLEXIBILITY THAT'S ALWAYS WITH YOU

What could you do with a software suite as agile as your firm? A full suite of professional applications that allows you to add new services with the click of a mouse? To add staff when you need them and remove them when you don't? And to access it all from anywhere in the world, anytime?

It's intriguing. And it's exactly what you get with SaaS for the CS Professional Suite. Not to mention a profession-leading list of integrated features, including:

- True software leasing that lets you pay for only what you need.
- No installations, backups, or maintenance—just log in and get started.
- A comprehensive implementation program that ensures your firm a smooth transition to the cloud.

What could you do with an always-on connection to the most powerful minds in tax and accounting software? It's time to find out.



CS PROFESSIONAL SUITE®
ENTERPRISE SUITE™

Simple Workflow for Complex Processes

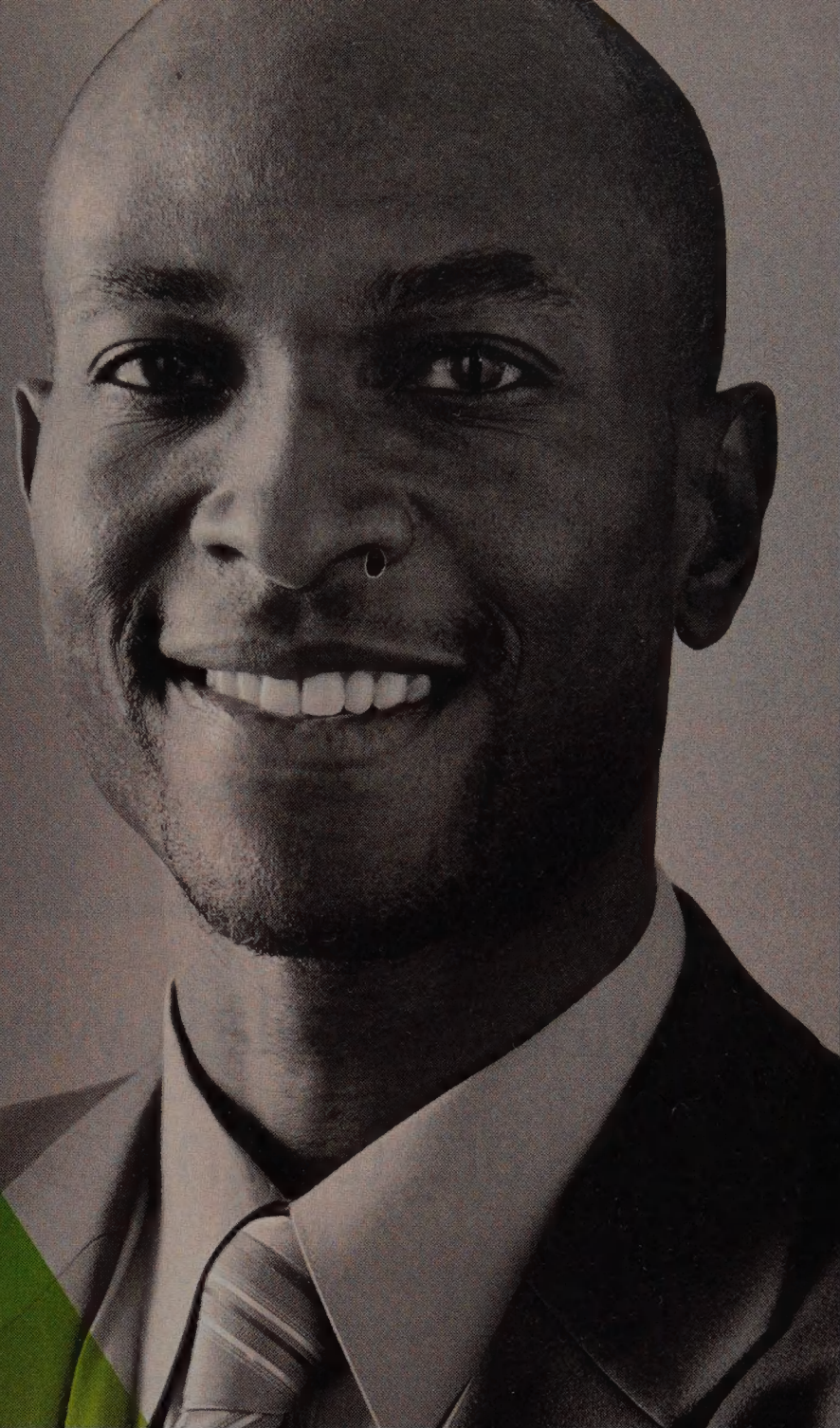
800.968.8900 • CS.ThomsonReuters.com/SaaS



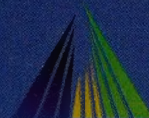
THOMSON REUTERS™



RIGHT THERE WITH YOU.



EMPOWERING YOUR ORGANIZATION AND EMPLOYEES IS ALWAYS TOP OF MIND. At Becker Professional Education, everything we do is done to prepare, to equip, to empower your people and enhance the value of your organization. Our CPA Exam Review students pass at double the rate of non-Becker students, with more than 400,000 successful alumni to date. Becker's Continuing Professional Education keeps employees like yours at the top of the profession and ahead of the curve. It's no wonder Becker currently serves the Big 4 global accounting firms, and has relationships with 98 of the top 100 accounting firms in the US. So go with the leader. Go with Becker. And strengthen your leaders of tomorrow.



BECKER[®]
PROFESSIONAL EDUCATION
becker.com

©2011 DeVry/Becker Educational Development Corp. All rights reserved.



It's hard to relax, when sales and use tax issues are lurking...

CCH's sales and use tax solutions will give your customers peace of mind knowing they have access to a set of complete tools that address all of their needs. CCH's full line of comprehensive sales and use tax products allow corporations to attack the complexities of sales and use taxes from a number of different angles. Whether they require research content, the ability to obtain rates, conduct calculations or help with compliance — CCH has a solution designed specifically to integrate with their ERP. Now that's a partnership you can trust.

SAP Certified
Integration with SAP Applications

sage

Microsoft **ORACLE**

**Build your portfolio, generate more leads,
and increase revenue with CorpSystem®
sales and use tax solutions from CCH.**



CCH

a Wolters Kluwer business

To learn more about CCH's sales and use tax solutions, or how to become a preferred partner call us today at 866-513-CORP (866-513-2677) or visit CCHGroup.com/PrefPartner



OCTOBER 2011

Vol. 212

www.journalofaccountancy.com

Issue 4

ARTICLES

32 | BUSINESS & INDUSTRY

Planning for Uncertainty

by Matthew G. Lamoreaux

Corporate financial planning expert Steve Player highlights how CPA financial executives can use nimble rolling forecasts to replace annual budgets.

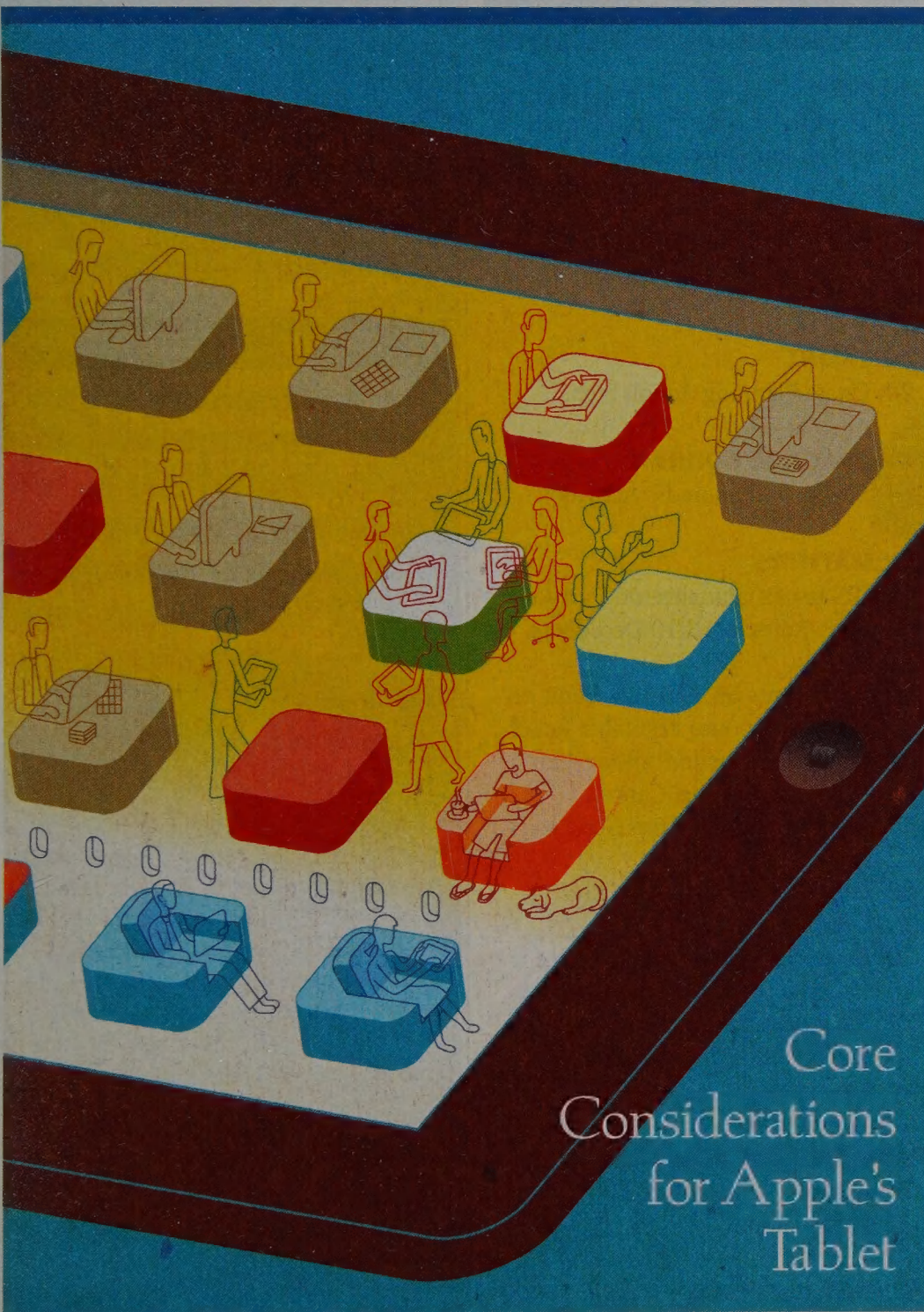
► For CPAs in business and industry **38 | BUSINESS & INDUSTRY / TAX**Act Public Before Going Public:
How to Manage Tax Accounting
When Preparing for an IPOby Douglas M. Sayuk, CPA; Matthew H. Fricke;
and Shamen R. Dugger, Esq., CPA

Laying the groundwork for a successful initial public stock offering includes paying close attention to the company's tax function.

► For CPA corporate tax managers and advisers

**44 | PROFESSIONAL DEVELOPMENT**Eight Ways to Expand Your
Mentoring Networkby Ralph E. Viator, Ph.D., and Derek Dalton,
CPA, Ph.D.

Promote career development and ease social interactions within your firm or company by expanding your mentoring networks.

► For all CPAs Core
Considerations
for Apple's
Tablet**26 | TECHNOLOGY**
The iPad Decision
by Jeff Drew

Some CPAs swear by the iPad, calling it an indispensable business tool. Other CPAs believe Apple's tablet is about as useful as a legless table. This article examines the iPad's strengths and weaknesses, introduces the top apps and accessories, and gives guidelines for deciding if the iPad is right for you and your business.

► For all CPAs, especially managing partners and CIOs

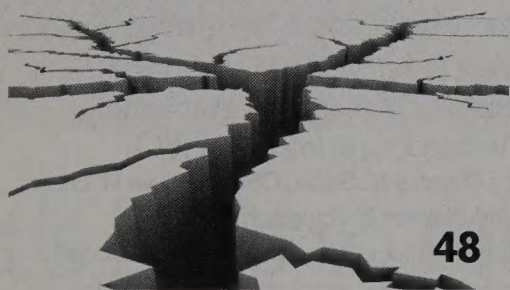
On cover and above: Illustrations by Otto Steininger/Three In A Box

ARTICLES

48 | GOVERNMENT / ANALYSIS

Intergovernmental Financial Dependency: Why It Matters
by Edward Mazur, CPA, and John Montoro, CPA
Congress' urgent work to rein in federal spending is likely to impact state and local governments from coast to coast because of their heavy reliance on federal funding. Amid this uncertainty, CPAs are positioned to play a key role in helping government clients assess this dependency and the major risks posed by possible funding changes.

► For CPAs in government

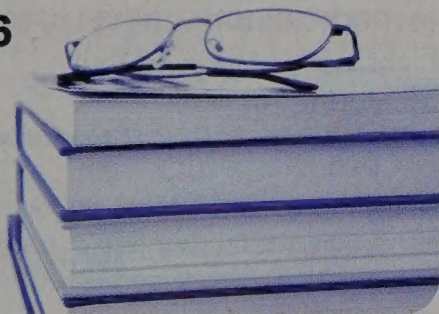


56 | TAX / TECHNOLOGY

2011 Tax Research Service Survey
by Paul Bonner
The *JofA* and *The Tax Adviser* asked CPAs about what tax research service or other resource they primarily use and their thoughts on these products' strengths and weaknesses. More than 10,000 CPAs answered the survey. Take a look at what they said.

► For CPAs who provide tax services

56



NEWS

NEWS DIGEST

- 17 News and highlights for the accounting profession

COLUMNS

ONLINE

- 6 Features and online extras available at journalofaccountancy.com

LETTERS

- 14 Readers respond to recent *JofA* articles

CHECKLIST

- 24 Estate Planning Action Steps

TAX PRACTICE CORNER

- 64 SE Tax and Sporadic Activity

TAX MATTERS

- 66 IRS Issues Guidance on Carryover Basis Rules for 2010 Decedents' Estates
67 IRS Relents on Two-Year Limit on Innocent Spouse Equitable Relief
67 Medical Deduction Allowed for In-Home Personal Care
68 Roth Restructure "Too Good to Be True"
69 Regs Shut Down Artificially Generated FTCs
70 Economic Substance Guidance Issued to IRS Examiners
71 Final Regulations Simplify Reduced Research Credit Election
71 Line Items

FROM THE TAX ADVISER

- 74 Business Autos and 100% Bonus Depreciation

TECHNOLOGY Q&A

- 76 Make a difference with PivotTables...X marks the spot...Control your

accent...A sky-high solution...Five inexpensive technologies

INSIDE AICPA

- 80 Roth conversion article wins award...AICPA and NASBA create online mobility tool...AICPA launches official blog...Leadership Academy class of 2011 selected...Where to Turn

THE LAST WORD

- 116 A look at some of the intriguing, inspiring and imaginative folks who are at the heart of the AICPA

OFFICIAL LITERATURE

DRAFTS OUTSTANDING

- 84 Current status of exposure drafts and working drafts

OFFICIAL RELEASES

- 86 Clarified Statements on Auditing Standards

CPE DIRECT:

Another major benefit for *JofA* readers

Stay current through the *JofA* and earn CPE credit based on *JofA* articles—with the **CPE Direct** self-study subscription program. You can earn up to 48 CPE credits a year. Quarterly **CPE Direct study guides** combine *JofA* articles with supplementary materials and exams.

An annual subscription is \$189 for AICPA members or \$236.25 for non-members. For more information or to order, visit www.cpa2biz.com/cpe, or call 888-777-7077.



This symbol identifies articles in the **CPE Direct** self-study program.

! Advertisers in this issue, page 115



Journal of Accountancy (ISSN 0021-8448), October 2011. Published monthly by the American Institute of Certified Public Accountants, Inc. Volume 212, Number 4. Subscription rates: United States, \$75 a year (\$69 for renewals); outside U.S., \$100 (\$94 for renewals); single copy, \$12. Publication, editorial and business office: 220 Leigh Farm Road, Durham, NC 27707-8110. Editorial: (919) 402-4449, email: joaed@aicpa.org; Advertising: (800) 873-1677; Circulation: (888) 777-7077. Periodicals postage paid at Durham, N.C., and at additional mailing office. Change of address notices and orders for subscriptions are to be sent to 220 Leigh Farm Road, Durham,

NC 27707-8110. Subscribers ordering an address change must give four weeks notice and both new and old address, including ZIP code. Copyright © 2011 American Institute of Certified Public Accountants, Inc. Member of BPA International. Postmaster: Please send address changes to the *Journal of Accountancy*, Fulfillment Manager, 220 Leigh Farm Road, Durham, NC 27707-8110. Canada Publication Agreement number 40020939. Printed in the U.S.A. The contents of the *Journal of Accountancy*, P.O. publication identification no. ISSN 0021-8448, are indexed in the Accounting & Tax Database, distributed by Bell & Howell Information & Learning, in print subscription and online through DIALOG (file 485). Opinions expressed in the *Journal of Accountancy* are those of editors or contributors. They may differ from policies of the American Institute of CPAs and its committees.





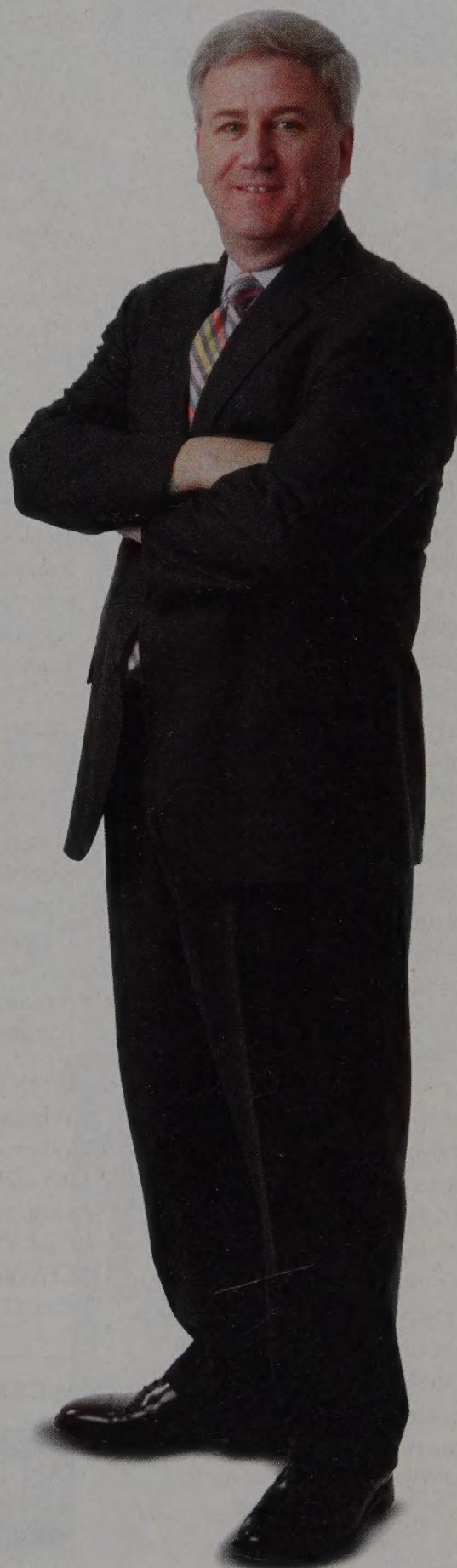
Because the source of your information matters

Count on BNA's *Premier State Tax Library* to integrate expert analysis and time-saving practice tools developed by our extensive team of top state tax specialists. Their expertise provides the rock-solid direction and real-world insights that give you a confident advantage.

For more
information,
call 800.372.1033
or visit
bna.com/stateinfo1

Thomas M. Zaino

Member,
McDonald Hopkins, LLC,
Author,
Ohio Commercial Activity Tax
(Portfolio 2260)



Journal of Accountancy.com

Visit journalofaccountancy.com/Web/Oct2011 for direct links to the videos and articles on this page.



SOCIAL MEDIA TIP

Improve Your LinkedIn Profile

LinkedIn introduced a virtual profile adviser to help users maintain a complete and up-to-date profile.

To get started, click the yellow "Improve your Profile" button on your "Edit Profile" page. The tool looks at the gaps in your existing LinkedIn profile and makes a series of personalized suggestions to optimize it. A list of these suggestions appears in the right column as the tool walks you through each step. At the top of your profile, you'll be presented with the suggestion in a large blue box and have the option to complete the question or skip to the next suggestion.

In addition to this new tool, LinkedIn redesigned its profile pages, adding new sections, such as projects, awards, honors and organizations, and making them easier to share and export in PDF and other printable formats. And whenever LinkedIn adds new sections in the future, they will automatically be included in the "Improve your Profile" tool.

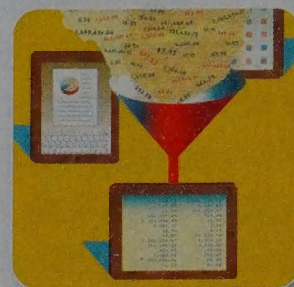
For more social media tips and how-to's, visit facebook.com/JournalofAccountancy and click the "Social Media Tips" link in the left column.

—Megan Pinkston (mpinkston@aicpa.org)
is the JofA's senior online editor.

FEATURED DOWNLOAD

Top iPad Applications for CPAs

Which are the best apps for CPAs using iPads? Which other tablets merit consideration? To access a chart with details on 50 iPad applications and information on browser-based applications from major accounting-software publishers, and to read capsule profiles of selected tablets, visit tinyurl.com/3sf99ja.



ONLINE EXTRAS

ARTICLE

Lessons on Managing Risk in Emerging Markets

Companies expanding their investments or operations into emerging markets face a number of risks, including corruption, lack of transparency and currency fluctuations. In this article, Michael Ferguson, CPA, a former senior consultant with FTI Consulting and senior auditor with Ernst & Young, shares his experiences from a consulting project in India. He outlines concrete steps that firms considering investments in emerging markets can take to reduce risks and improve their odds of success. The article is available at tinyurl.com/429ga6u.



BONUS CONTENT

Sample Client Letter: Estate Planning Awareness Week

Congress has declared Oct. 17–23, 2011, National Estate Planning Awareness Week. After reading "Estate Planning Action Steps," page 24, visit tinyurl.com/43t7nrw for a sample client letter to download and use to highlight this important and often overlooked need.



ONLINE FORUM

What's Your Budgeting Challenge?

Where does your business fall on the continuum between traditional annual budgeting and rolling forecasts? What's worked for you and what unexpected challenges arose as you moved into shorter forecasts with more frequent updates? After you read "Planning for Uncertainty," page 32, share your experience and hear from other CPAs about their lessons learned. Visit facebook.com/JournalofAccountancy and click "Discussions" in the left column to participate.

WEBSITE AWARDS



2010 Silver Medal: Best B2B Website

Tabbie Awards; Trade, Association and Business Publications International

2010 Silver: Association/Non-Profit Website

Eddie Awards; Folio: magazine



Experis[™]
Finance

ManpowerGroup



SUSTAINABLE GROWTH IS HUMANLY POSSIBLE

What are you doing to grow your business? At Experis[™] Finance (formerly Jefferson Wells[™] and Manpower[®] Professional), we've built a reputation for results-driven project solutions and experienced talent that can create a lasting competitive advantage and increase the bottom line. With a deep understanding of your industry, processes and business issues, we bring solutions and talent together to take on your risk advisory, tax, and finance & accounting challenges. We help you capitalize on new opportunities to drive performance, cut costs, manage risk and increase revenue. And you can watch your company flourish. **Learn more and register for updates at experis.us/ja**

Risk Advisory • Tax • Finance & Accounting



JOURNAL OF ACCOUNTANCY

Reliable. Resourceful. Respected.

Publisher

Joanne E. Fiore (jfiore@aicpa.org)

Executive Editor

Kim Nilsen (knilsen@aicpa.org)

Managing Editor

Rocky S. Rosen (rrosen@aicpa.org)

Editor-in-Chief, Tax

Alistair M. Nevius (anevius@aicpa.org)

Tax Technical Content Manager

James A. Beavers (jbeavers@aicpa.org)

Senior Editors

Paul Bonner (pbonner@aicpa.org)

Jeff Drew (jdrew@aicpa.org)

Gary James (gjames@aicpa.org)

Senior Online Editor

Megan Pinkston (mpinkston@aicpa.org)

Senior Assistant Editor

Amelia Rasmus (arasmus@aicpa.org)

Copy Editors

Todd Conard (tconard@aicpa.org)

Jeffrey Gilman (jgilman@aicpa.org)

Contributing Editor

J. Carlton Collins

(carlton@asaresearch.com)

Art Director

Michael Schad Johnstone

(mjohnstone@aicpa.org)

Administrative Assistant

Christine Sposito (csposito@aicpa.org)

Associate Publisher

Karin DeMarco (kdemarco@aicpa.org)

Senior Manager, Business Development

Shreyas Mecheri (smecheri@aicpa.org)

Advertising Representatives

Joanne Bailey (jbailey@aicpa.org)

Paul Hayes (phayes@aicpa.org)

Advertising Production Manager

Eric Olson (eolson@aicpa.org)

Senior Sales Support Associate

Reggale Hartsfield

(rhartsfield@aicpa.org)

Senior Manager, Production Services

Robert F. DiCorcia (rdicorcia@aicpa.org)

Production Manager

Michael J. Laches (mlaches@aicpa.org)

Production Administrator

M. Donovan Scott (mscott@aicpa.org)

EDITORIAL ADVISERS

Emmanuel A. Appiah

Kenneth D. Askelson

Art Auerbach

James Bean

Mozart Bernard

Clark M. Blackman II

John C. Boma

Helen L. Brown

Steven J. Brown

Jolene C. Brucks

Thomas F. Burrage

Linda Burt

J. Gregory Bushong

Benson J. Chapman

Tracy Coenen

J. Eustis Corrigan Jr.

Michael Crain

Gale Crosley

Audrey Dorsey

Richard Dull

Rosemarie T. Dunn

Thomas Emmerling

Louis J. Farina

Joel Framson

Robert J. Freeman

Sailesh Gadia

Michelle F. Gallagher

Ramalingam Ganesh

Kim Gibson

Paul L. Gillis

Alan Glazer

Glenda Glover

J.D. Golub

Catherine Harper

James E. Hunton

Cynthia Jackson

Aamer Javed

Sandra Johnigan

Susan S. Jones

Kathleen Kedrowski

Joyce Ann Keller

G. William Kennedy

Katherine Kinkela

David H. Kirk

Frank J. Kopczynski

Jeffrey B. Kraut

Kevin Kreb

Dennis B. Kremer

Gary C. Kress

Michael S. Kridel

John Lewison

Joseph P. Liotta

Mano Mahadeva

Jane M. Mancino

Anthony D. McDuffie

David McIntee

Paul B.W. Miller

Debra Mitchell

Roger H. Molvar

Michael Morhaus

Brenda Morris

Craig Murray

Dennis A. Newman

Glenn Newman

Lyne P. Noella

Edward T. Odmark

Jimmy S. Pappas

Christopher Allan Parker

Stephen Polak

Grover L. Porter

Mary P. Ricciardello

Mark L. Richardson

Danielle E. Rolfes

Marshall B. Romney

Richard Roomberg

Steven E. Sacks

Gerard H. Schreiber Jr.

Edward Schultz

Peggy Scott

Carolyn Sechler

Scott K. Sprinkle

Paul C. Sullivan

Brent M. Tabor

Gary R. Trugman

Victor Valdivia

Paul Andrew Vosteen

Jean Wells

David Westbrook

Rebecca J. Whitener

Mark A. Yahoudy

Kevin R. Yeanoplos

David Zweighaft

RESOURCE GUIDE

EDITORIAL

919-402-4449 • joaed@aicpa.org

ADVERTISING

Display ads (media kits; mailings; editorial calendars; rates):

800-873-1677

aicpamedia@aicpa.org

Classified ads: Russell Johns

Associates, LLC, 800-237-9851;

joa@rja-ads.com

CHANGE OF ADDRESS/ CUSTOMER SERVICE

888-777-7077

PUBLISHED ARTICLES AND REPRINTS

Permission to reprint *Journal of Accountancy* articles: Copyright

Clearance Center at 978-750-8400

or www.copyright.com

Commercial reprints (orders of 500 or more): Diana Sholl at YGS Group, 717-399-1900, ext. 162

Photocopies of old articles; article research (for members only): University of Mississippi, 866-806-2133

ARTICLE SUBMISSIONS

Articles and news submissions, and author guidelines:

Amelia Rasmus, 919-402-4449, arasmus@aicpa.org

ORDERS/SUBSCRIPTIONS

For AICPA publications, 888-777-7077

SUBJECT MATTER PANELS

Accounting: John Althoff, J. Gregory Bushong, Alan Glazer, Russell Golden, Debra Mitchell, Daniel Noll, Edward T. Odmark, Alan Steiger; **Auditing:** Catherine Allen, Susan S. Jones, Charles E. Landes, Joseph P. Liotta, Edward T. Odmark, Douglas Prawitt, Thomas Ratcliffe, Ivan J. Sotomayor; **Business & Industry:** Kenneth D. Askelson, Stuart R. Benton, Benson J. Chapman, Jeffrey B. Kraut, Alan Steiger; **Business Valuation/Litigation Services:** Thomas F. Burrage, Robert Gray, Edward Mendlowitz, Robert F. Reilly, Linda Trugman; **Personal Financial Planning:** Clark Blackman, Robert Keebler, Sidney Kess, Steven Levey, Kevin Roach, Scott Sprinkle, Susan Tillery; **Practice Management:** Richard V. Kretz, Bea L. Nahon, William Pirolli, Steven E. Sacks, Carolyn Sechler; **Tax:** Steven J. Brown, Benson J. Chapman, DeAnn Hill, Sidney Kess, Steven Thompson; **Technology:** James C. Bourke, Nancy Cohen, J. Carlton Collins, Randy Johnston, Gregory L. LaFollette, Amy Vetter

**YOU DO WHATEVER IT TAKES TO
SAFEGUARD YOUR CLIENTS' INTERESTS.**

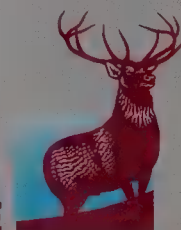


WHAT ABOUT THEIR DATA?

Your skill brings clients in the door. Trust brings them back. When a client's personal information is compromised, their privacy and your business may be at risk. Protect both with Data Breach insurance from The Hartford. We'll help you comply with regulatory requirements, provide guidance on how to handle a breach, and cover response and liability expenses to quickly restore your business's reputation.

Don't let a data breach compromise your clients' trust.

**Learn more about our special insurance coverage at
thehartford.com/databreach or call 877-251-1418.**



**THE
HARTFORD**

With The Hartford behind you, achieve what's ahead of you.®

Contributing AUTHORS

■ The iPad Decision page 26



Jeff Drew is a *JofA* senior editor. He oversees coverage of practice management and technology. He has nearly 20 years of journalism experience, including a decade in various editorial capacities with American City Business Journals.

■ Planning for Uncertainty page 32



Matthew G. Lamoreaux is a freelance writer. He has more than 12 years of experience writing and editing for professional publications, including five years as a *JofA* senior editor managing coverage of corporate finance, financial reporting and international issues.

■ Act Public Before Going Public: How to Manage Tax Accounting When Preparing for an IPO page 38



Douglas M. Sayuk, CPA, is a partner at Clifton Douglas LLP in San Jose, Calif., where he provides tax services to businesses, particularly in accounting for income taxes, federal and state tax compliance, and tax internal control implementation and documentation. Previously, he worked in the San Jose office of PricewaterhouseCoopers as a lead tax manager on companies including global *Fortune* 500 technology companies. He has written articles for accounting and tax publications including in the *JofA* (with Matthew H. Fricke and Shamen R. Dugger) "2010 Small Business Jobs Act: Good for Big Business," Dec. 2010, page 30, and (also with Fricke and Dugger) "Act 2 for Business Tax Incentives," March 2011, page 28.



Matthew H. Fricke is a partner at Clifton Douglas LLP in San Jose, Calif. He has been involved in the public accounting management of large companies as well as newly formed corporations and startup entities. His business specialties include corporate deferred tax accounting, tax internal control implementation and domestic compliance. Previously, he was a lead tax manager in PricewaterhouseCoopers' San Jose office. He has written for accounting and tax publications including in the *JofA* (with Douglas M. Sayuk and Shamen R. Dugger) "2010 Small Business Jobs Act: Good for Big Business," Dec. 2010, page 30, and (also with Sayuk and Dugger) "Act 2 for Business Tax Incentives," March 2011, page 28.



Shamen R. Dugger, Esq., CPA, is a director of Clifton Douglas LLP in San Jose, Calif. She has assisted companies in complex income tax issues. She worked previously as a tax director for PricewaterhouseCoopers in San Jose, Calif., focusing on accounting for income taxes, return preparation and special projects. She is licensed to practice law in California and is a licensed CPA in California. Her past *JofA* articles include (with Douglas M. Sayuk and Matthew H. Fricke) "2010 Small Business Jobs Act: Good for Big Business," Dec. 2010, page 30, and (also with Sayuk and Fricke) "Act 2 for Business Tax Incentives," March 2011, page 28.

■ Eight Ways to Expand Your Mentoring Network page 44



Ralph E. Viator, Ph.D., is a professor of accounting at Texas Tech University. He was president of the American Accounting Association's Information Systems Section and director of accounting doctoral programs at Texas Tech University and the University of Kentucky. Since the early 1990s, he has studied mentoring relationships in the accounting profession, reporting those findings in leading academic journals, including *Accounting, Organizations and Society*; *Behavioral Research in Accounting*; and *Accounting Horizons*.



Derek Dalton, CPA, Ph.D., is an assistant professor at Clemson University in South Carolina, where he teaches cost accounting and corporate taxation. His research focuses on behavioral and ethical issues in accounting. He received his Ph.D. from Texas Tech University in 2010 and is a licensed CPA in Iowa.

(Continued on page 12)



REUTERS/Christian Charisius

YOUR WORLD MOVES QUICKLY

MAKE YOUR NEWS KEEP UP WITH YOU

Now there is a current awareness and news experience designed to keep up with you, whenever and wherever you need it.

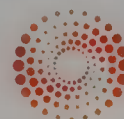
Introducing **Thomson Reuters News & Insight**, an innovative current awareness solution for your computer, smartphone and tablet featuring: legislative updates, expert analysis, and exclusive original journalism on tax and accounting topics and trends with real-time updates, videos, images and more.

By combining content from Thomson Reuters Checkpoint®, the leading tax and accounting information service, and Reuters®, the world's premier news agency, Thomson Reuters News & Insight goes beyond the headlines to give you the filtered information you need to become even more knowledgeable and effective.

Stay on top of what's new in tax and accounting as it unfolds. Call or visit today to learn more.

1.800.950.1216 yourcheckpoint.thomsonreuters.com/news

TAX & ACCOUNTING



THOMSON REUTERS™

(Continued from page 10)

■ **Intergovernmental Financial Dependency: Why It Matters** page 48



Edward Mazur, CPA, is a senior adviser for public-sector services at Clifton Gunderson LLP in Glen Allen, Va. He is a member of the Financial Management Standards Board of the Association of Government Accountants and a former member of GASB and the Federal Accounting Standards Advisory Board. From 1980 to 1991, he served four governors as state comptroller of Virginia. Under appointment by President George H.W. Bush, he went on to serve as the first controller named under the CFO Act, through which he directed the Office of Management and Budget's Office of Federal Financial Management. He is the principal author of *Intergovernmental Financial Dependency and Related Risks with Proposed Reporting by State and Local Governments* (tinyurl.com/3jayx39), a three-volume report published in June 2009, and *Intergovernmental Financial Dependency: A Guide for State and Local Governments in Preparing a Special Report* (tinyurl.com/3hpjone), published in 2011.



John Montoro, CPA, is a partner in the Richmond, Va., office of Cherry, Bekaert & Holland LLP. He is an audit partner in the firm's Government Services Group and is responsible for quality assurance, training, marketing and service delivery to local governments, state agencies and related entities. Throughout his 32-year career in public accounting, he has performed financial and compliance audits, performance audits and a variety of services designed to strengthen financial management, including programs to document and test internal controls over financial reporting. He is a member of the AICPA Governmental Audit Quality Center Executive Committee and is a vice chair of the Virginia Society of Certified Public Accountants.

■ **2011 Tax Research Service Survey** page 56



Paul Bonner is a senior editor-tax for the *JofA*, *The Tax Adviser* and the AICPA Insiders e-newsletters. He also is an adjunct instructor teaching news writing in the School of Journalism and Mass Communication at the University of North Carolina at Chapel Hill.



**Advance Your Practice
With a Specialty Credential**
Registration is Now Open

Accounting specializations are helping CPAs deepen client relationships, add new revenue streams and grow their practices. Don't miss this opportunity to earn a CPA-exclusive credential and begin showcasing your expertise.

Accredited in Business Valuation (ABV®) – aicpa.org/abvexam

Certified in Financial Forensics (CFF®) – aicpa.org/cffexam

Personal Financial Specialist (PFS™) – aicpa.org/ptsexam



AICPA Insurance Trust
Member Insurance Programs

Insurance Plans from the AICPA Insurance Trust: *They're as versatile as you are.*



Not an AICPA member, but
want to take full advantage of
these exclusive insurance plans
that offer affordable rates?

Visit www.aicpa.org for
membership information today!

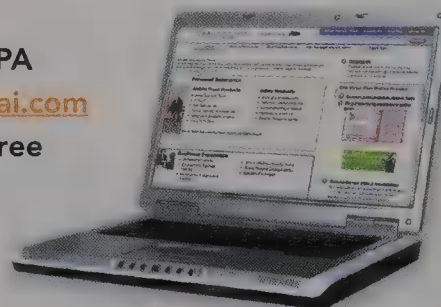
Protection—no matter what you may encounter

Your AICPA membership grants you access to an impressive suite of Plans endorsed by the AICPA with insurance issued by The Prudential Insurance Company of America. These Plans are designed to offer the coverage and options CPAs like you need. For instance, the CPA Life, Group Variable Universal Life (GVUL), Level Premium Term (LPT) and Spouse Life Plans offer up to \$2,000,000 in coverage, depending on your age and memberships, plus optional features that let you tailor them to your family's needs. And the Long Term Disability Plan offers monthly benefits up to \$12,000. With these and other Plans to choose from, you're sure to find the right insurance plan at competitive rates that fit your own financial plan.

Annual cash refunds lower your costs

Each year, the money not needed to pay claims and other expenses is distributed to participants in all AICPA-endorsed Life and LTD Plans in the form of annual cash refunds. Refunds, paid by the Trust out of premium refunds received from Prudential, can significantly reduce the cost of your coverage. While not guaranteed, they have been paid annually since 1957. Find out what over 185,000 CPAs already know—that AICPA-endorsed insurance Plans offer coverage you can trust.

For more information, visit the AICPA
Insurance Trust website at www.cpai.com
or call Aon Insurance Services toll free
at 1-800-223-7473.



For GVUL: You should consider the contract and the underlying funds' investment objectives, risks, charges and expenses carefully before investing. Both the contract prospectus and the underlying fund prospectuses contain this and other important information. Contact Aon Benfield Securities, Inc. for the prospectuses. You should read them carefully before purchasing a contract.

Group Term Life and Disability coverages are issued by The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102-3714. The booklet-certificates include all exclusions, limitations and reductions that may apply. Contract Series 83500. Group Variable Universal Life (contract series 89759) is issued by The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102-3714, and is distributed by Prudential Investment Management Services LLC (PIMS), Three Gateway Center, 14th Floor, Newark, NJ 07102-4077, each being a Prudential Financial company, and each is solely responsible for its financial condition and contractual obligation. Coverage is offered and administered through Aon Benfield Securities, Inc., member FINRA/SIPC, 159 East County Line Road, Hatboro, PA 19040-1218, 1-800-223-7473. The Plan Agent of the AICPA Insurance Trust is Aon Insurance Services. Aon Benfield Securities, Inc., and Aon Insurance Services are not affiliated with either Prudential or PIMS.

Letters

LOW-COST TECH OPTIONS HELP SMALL FIRMS STAY COMPETITIVE

In the April 2011 issue, the article about emerging technology trends ("Survey Highlights Emerging Tools for Firms of All Sizes," page 28) was encouraging to me, as I came to realize that the local firm at which I am employed utilizes many of the tools highlighted, such as multiple screens and a well-maintained website. In my opinion, one of the strong points of these technologies is that many are very low cost, such as Twitter or Facebook pages, where many of our followers and fans are potential and existing clients; accounting students at the local university; and employees. It's not only a quick and easy way to communicate news, but also a way to reach out to the community. Our client portal has also been a boon for transferring files and adding a level of security that our clients appreciate. In the end, I feel using these measures really gives smaller, local firms a way to be just as visible as larger, national firms; and it makes us competitive with them on a 21st-century scale.

Brad Garland, CPA
Huntsville, Ala.

TIME FOR ACTION ON PRIVATE COMPANY FINANCIAL REPORTING

I wrote [the following] letter to Chairman

Leslie Seidman of the Financial Accounting Standards Board after I read her Questions & Answers in the May 2011 *JofA* ("FASB Prepares to Reprioritize: An

Interview With Chairman Leslie Seidman," page 32). I was disappointed that she did not embrace the recommendations of the Blue Ribbon Panel concerning private company financial reporting. I was mostly distressed that she wanted to study the issue more, since I believe this issue has already been studied enough over the last 35 years.

Dear Chairman Seidman:

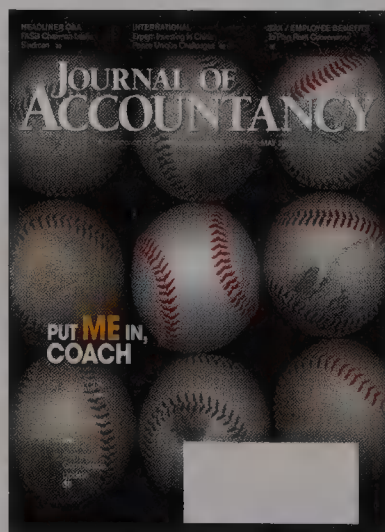
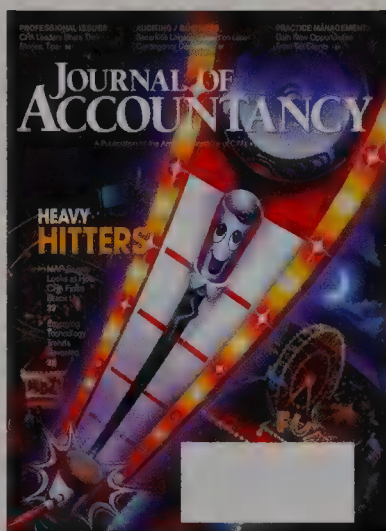
I read your Q&A in the May 2011 *Journal of Accountancy*, and I must write that I am deeply disappointed in your reluctance to adopt the recommendations of the Blue Ribbon Panel concerning private company financial reporting. Toward the end of the article you ask a series of questions that one should ask in order to decide how to proceed. Every one of those questions has been answered for years. But, since you do not agree, I will repeat the answers for you.

"Have we heard the concerns accurately?" Read the 1975 Accounting Standards Division of the AICPA report or the results of every other study from then until the Blue Ribbon Panel issued its report this year. They all recognized the same concerns. The users of private company financial statements are not interested in the vast majority of the disclosures and financial statement presentation rules issued by FASB. Consequently, when private companies try to adhere to those standards, it costs them money while yielding no benefit.

"Assess whether people agree widely that these are the right things to focus on in establishing a differential framework." Every study done on this subject has come to the conclusion that private companies should be not be required to follow FASB's framework in its entirety. In 2005, the AICPA Council instructed AICPA staff to work with FAF (the Financial Accounting Foundation) and FASB to explore GAAP for private companies.

The Blue Ribbon Panel conducted a lengthy, in-depth study of the subject and concluded that private companies should have a different framework. To use your own words, "People agree widely." There is no more need to ask that question.

"Determine what form it should take. Should it be some sort of a conceptual framework? Should it be just some



guiding principles that we would use in approaching this?" The Blue Ribbon Panel has answered those questions. "The Panel believes that, at least in the near term, the system should focus on making exceptions and modifications to U.S. GAAP for private companies that better respond to the needs of the private company sector rather than move toward a separate, self-contained GAAP for private companies or a wholesale reorganization of GAAP," according to the panel's report to FAF in January.

Your answer: "I don't know at this point in time, but that's something we can think about down the road." After 35 years of study of the issue, it is time to move forward immediately. We do not need to think about it down the road. Six years ago, the AICPA Council urged FAF and FASB to work with it to explore GAAP for private companies. You state that you are "planning to establish a resource group of private companies and the users of their financial statements." You are planning to establish such a group? What took you so long? The time for more study is over. It is time to do something about this very real problem. I urge you to end your opposition to the Blue Ribbon Panel's recommendation.

Thomas G. Malkoch, CPA
Lafayette Hill, Pa.

Give Us Your Feedback

The JofA encourages readers to write letters commenting on the magazine's content. Letters should be no longer than 500 words and may be edited for length and clarity. Please include your telephone number, city and state of residence and email address. Email: joaed@aicpa.org • Mail: Letters to the Editor, Journal of Accountancy, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.



Do you need to train multiple staff members?

AICPA Learning group sales has everything your team needs

Options include:

- On-Site Training – Focused training at your location for groups of 10+
- CPExpress – 24/7 online Firm Access starting at 10 users
- Conferences – Group discounts for 2 or more
- Web Events – Group discounts for 5 or more
- Publications & Self-Study – Volume discounts

Visit **aicpalearning.org** or call **800.634.6780** (option 1) today



aicpalearning.org

It only takes seconds to increase
the perceived & billable value of your work.

Lockhart's World Class
Presentation Folders
& Report Covers

*Present an image of uncompromising value to your clients
to deliver the "WOW!" and get paid for all you're worth.*

"No
assembly"
covers
available

The intellectual capital you invest in client documents demands quality presentation covers to create professional value.

Lockhart's all new *Expanding FASTenerFolder™*
features include:

- One-piece cover with built-in pocket
- Fast assembly/reassembly when making copies
- Innovative fastener for easy client access
- Expanding spine holds 1 to 250 pages

Risk Free. Try Before You Buy.

Design your Free Presentation Cover
with your firm name.

Call 800-966-2709 or visit the **ALL NEW**
www.LockhartAdvantage.com

THE LOCKHART GUARANTEE

You risk nothing! 100% unconditional guarantee.

LOCKHART™
Branding Your Image
...of Excellence

www.LockhartAdvantage.com (800) 966-2709

© Lockhart Industries, Inc. All rights reserved.

NewsDigest

Visit journalofaccountancy.com for news updated daily, and to sign up for email news alerts on topics of your choice.

HIGHLIGHTS

FINANCIAL REPORTING

■ FASB completed redeliberations on a revised accounting standard it said will provide more information about an employer's financial obligations to multi-employer pension plans. Previously, employers were required to disclose only their total contributions to all multiemployer plans in which they participate.

FASB said it expected that the final Accounting Standards Update would be prepared and published in September. The revisions are based on a proposal the board issued in September 2010. The ED is available at tinyurl.com/2c8ntrh.

But the board, responding to commenters' concerns, deleted from the final standard a requirement that employers disclose their withdrawal liability to all plans in which they participate. FASB posted an action alert (tinyurl.com/43zwm9d) and a FASB in Focus analysis (tinyurl.com/3lbt3w2) to summarize the main elements of the disclosures.

Multiemployer pension plans commonly are used by an employer to provide benefits to union employees who may work for many employers during their working life, thereby enabling them to accrue benefits in a single pension plan for their retirement.

"Historically, very limited information about these plans has been disclosed, even though they may represent significant potential obligations for many large, unionized industries such as trucking, supermarket chains and construction firms," said FASB Chairman Leslie Seidman in a press release.

The AICPA's Private Companies Practice Section (PCPS) Technical Issues Committee (TIC) submitted comments on the proposal in November. TIC said it supported the proposal as a necessary step to

■ **The PCAOB launched a new phase of its examination of potential limits on audit firm tenure with public companies.** The board voted to issue a concept release on the topic. It plans to gather feedback by mid-December and hold a public forum on the issue in March 2012.

According to the release, the board is particularly focused on weighing the advantages and disadvantages of audit terms of 10 years or greater. The board is also mulling the scope of any potential requirement, such as whether the rules would apply only to audits of the largest public companies.

The 41-page document poses 21 questions about which the board is most interested in gathering opinions. The topics range from the appropriate length of the term, if term limits are imposed, to implementation considerations. The concept release is available at tinyurl.com/3l7ekcg. Comments are due Dec. 14.

"The primary focus of the concept release is mandatory auditor rotation. Before we determine whether that is in the best interests of investors and the public, we will need to weigh carefully whether its benefits would outweigh its costs and potential unintended consequences," said PCAOB member Jay Hanson, a former national director of accounting for McGladrey & Pullen LLP and former chairman of the AICPA's Financial Reporting Executive Committee. "We also need to further analyze our inspection results and other available information to determine whether audit deficiencies are attributable to a lack of auditor objectivity and skepticism and, if so, whether those symptoms are best remedied through mandatory auditor rotation or some other measure."

If the board determined to move forward with development of a rotation proposal, it would also need to consider whether the requirement should be paired with other changes to existing requirements, the release states. Such procedures could include heightened internal supervision or oversight requirements for the first year or two of a new engagement, increased required communications between predecessor and successor auditors, or other steps auditors could be required to take during the transition from one firm to another.

improve disclosure of an employer's involvement in a multiemployer plan. However, TIC had concluded that the ED included certain required disclosures that would be unnecessary for public and private employers and that may have cost implications for the plans that would need to supply many of the proposed disclosures to participating employers. TIC's comments are available at tinyurl.com/3hh5h9y.

Among disclosures that TIC had recommended against requiring and that

were deleted from the final rule include: (1) whether the employer is or is not represented on the board of trustees of the plan(s) or a similar body; and (2) expected contributions for the next annual period.

The final rule also would allow employers to omit reporting certain quantitative information to the extent it is not available without undue cost. The employer would be required to describe what information it omitted and why.

FASB decided to delete from its original

proposal the requirement that employers disclose their withdrawal liability to all plans in which they participate, or provide a “point-in-time” estimate of their obligations with respect to the underfunded status of individual plans. FASB said many commenters told the board that the withdrawal liability would not be an appropriate proxy for an employer’s proportional share of the underfunded status of the plan. They suggested that the employer’s share of the underfunded status of the plan can only be determined through the collective bargaining process, and they urged FASB not to require a “point-in-time” estimate of an employer’s obligations with respect to underfunding.

Essential elements of the disclosures required for individually material plans include:

- An indication of whether the employer’s contributions represent more than 5% of total contributions to the plan.
- An indication of which plans, if any, are subject to a funding improvement plan.
- The expiration date(s) of collective bargaining agreement(s) and any minimum funding arrangements.
- The most recent certified funded status of the plan, as determined by the plan’s so-called “zone status,” which is required by the Pension Protection Act of 2006. If the “zone status” is not available, an employer will be required to disclose whether the plan is:
 - Less than 65% funded
 - Between 65% and 80% funded
 - Greater than 80% funded.

In addition, required disclosures for all plans include:

- The amount of employer contributions made to each individually material plan and to all plans in the aggregate.
- A description of the nature and effect of any changes affecting comparability for each period in which a statement of income is presented.

For public entities, the enhanced dis-

closures will be required in fiscal years ending after Dec. 15, 2011. For nonpublic entities, the enhanced disclosures will be required in fiscal years ending after Dec. 15, 2012.

■ FASB said it is hosting two public round-table meetings in October to discuss issues relating to existing private company accounting and reporting standards. The meetings, scheduled for Oct. 11 and Oct. 17, will discuss issues including accounting and disclosure requirements relating to variable-interest entities, interest rate swaps and level 3 fair value measurements.

FASB Chairman Leslie Seidman said in a press release that the purpose of the meetings is to “engage in a constructive dialogue about private company accounting and reporting issues on existing GAAP with a wide variety of stakeholders, including private companies, their CPA practitioners, and users of private company financial statements.

“The board and staff found that the two round tables we held last fall were valuable forums for hearing firsthand from private company constituents about their concerns with existing GAAP,” she said. “Those round tables provided the impetus for our efforts to develop a differential reporting framework for private companies and our project to simplify goodwill impairment assessments.”

A Blue Ribbon Panel sponsored by the AICPA, the Financial Accounting Foundation (FASB’s parent organization) and the National Association of State Boards of Accountancy met throughout 2010 and, in January 2011, finalized recommendations on private company financial reporting. The two most significant Blue Ribbon Panel recommendations are that:

- A new, separate board with standard-setting authority be established under the oversight of FAF. The board would coordinate activities with FASB but not be subject to FASB approval.
- Changes and modifications be made to existing and future GAAP that recognize the unique needs of users of

private company financial statements. All such changes would reside in the FASB Accounting Standards Codification.

The AICPA supports the panel’s main recommendations that change in financial reporting for private companies is long overdue and that a separate, autonomous standard-setting body is necessary for effective private company reporting to become a reality.

FAF Trustees discussed the panel’s recommendations at a February 2011 meeting and formed a Trustee Working Group in March to address accounting standard setting for nonpublic entities and gather public input.

The first FASB round-table meeting is scheduled for Oct. 11, 10 a.m. to 1 p.m. (CDT), at the Renaissance Chicago O’Hare Suites Hotel in Chicago. The second meeting is scheduled for Oct. 17, 9 a.m. to noon (PDT), in San Francisco (specific location to be determined).

Anyone interested in observing a meeting must pre-register at tinyurl.com/3smeuf5. Due to limited seating, no more than three observers from the same organization may attend. The sessions will be recorded for playback on FASB’s webcast archive at tinyurl.com/3s5n84b.

■ FASB issued an Accounting Standards Update (ASU) containing amendments that require health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Health care entities that recognize significant amounts of patient service revenue at the time services are rendered, even though the entities do not assess a patient’s ability to pay, will be affected by the change.

ASU no. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (a consensus of the FASB Emerging Issues Task Force), requires those health care entities

to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

The ASU says that, under current practice, some health care entities recognize patient service revenue when services are rendered regardless of whether the entity expects to collect that amount. Stakeholders raised concerns that such accounting practices result in a gross-up of patient service revenue and the related provision for bad debts. The ASU says its objective is to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts.

The amendments change the presentation of the statement of operations and add disclosures that are not required under current GAAP for entities within the scope of the ASU. The provision for bad debts associated with patient service revenue for certain entities is required to be presented on a separate line as a deduction from patient service revenue (net of contractual allowances and discounts) in the statement of operations.

For public entities, the amendments in the ASU are effective for fiscal years and interim periods within those fiscal years beginning after Dec. 15, 2011, with early adoption permitted. For nonpublic entities, the amendments are effective for the first annual period ending after Dec. 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments should be provided for the period of adoption and subsequent reporting periods. The ASU is available at tinyurl.com/3zw75pb.

GOVERNMENT

■ GASB issued two exposure drafts that the board said would establish a definition of pension plan that reflects the primary activities of a fund that is used to provide pensions—the accumulation and management of assets dedicated for pensions and the payment of pensions to plan members as the benefits come due. The board said the proposed amendments to existing pension standards would improve how the costs and obligations associated with the pensions that state and local governments provide to their employees are calculated and reported.

“It is important to note that these proposals relate to accounting and financial reporting, not to how governments approach the funding of their pension plans,” GASB Chairman Robert Attmore said in a press release. “Pension funding is a policy decision made by government officials.”

The first ED, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (Pension ED)*, primarily relates to reporting by governments that provide pensions to their employees. The second ED, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25 (Pension Plan ED)*, addresses the reporting by the pension plans that administer those benefits.

The Pension ED proposes that governments be required to report in their statement of financial position a *net pension liability*, which is the difference between the total pension liability and net assets (primarily investments reported at fair value) set aside in a qualified trust to pay benefits to current employees, retirees and their beneficiaries. It also proposes significant changes to how a government would calculate its total pension liability and pension expense. These changes include:

■ Immediate recognition of more components of pension expense than is currently required, including the effect on the pension liability of changes in benefit terms, rather than deferral and amortization over as many as 30 years, which is common

for funding purposes.

- Use of a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments and (b) the interest rate on a tax-exempt, 30-year, AA-or-higher-rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- A single actuarial cost allocation method—“entry age normal”—rather than the current choice among six actuarial cost methods.
- Requiring governments participating in cost-sharing, multiple-employer pension plans to record a liability equal to their proportionate share of any net pension liability for the cost-sharing plan as a whole.
- Requiring governments in all types of covered pension plans to present more extensive note disclosures and required supplementary information.

The Pension ED addresses situations in which another entity contributes to a government's pension plan on behalf of the employer. It also addresses accounting and financial reporting for employers that provide pensions through defined contribution plans.

The Pension Plan ED, which addresses financial reporting for plans that are administered through qualified trusts, outlines the basic framework for the separately issued financial reports of *defined benefit* pension plans. It also details proposed note disclosure requirements for *defined contribution* pension plans.

Comments on the proposals are due Sept. 30.

GASB also released a comprehensive plain-language supplement to assist nonaccountant users of financial statements in commenting on the Pension ED. The board will host public hearings on the proposals on Oct. 3, Oct. 13 and Oct. 20, and user discussion forums on Oct. 4, Oct.

14 and Oct. 21. Locations and other details, including instructions for registering to participate, are explained in the EDs, which are available at tinyurl.com/68lu83t.

■ GASB issued a Preliminary Views (PV) document on concepts related to recognition of elements of financial statements and measurement approaches. The board said the PV, *Recognition of Elements of Financial Statements and Measurement Approaches*, presents its early views on how and when an item should be reported (recognition) on state and local government financial statements and how the amount of the item reported on those

statements should be determined (measurement approach).

The document is available at tinyurl.com/6cmyl38.

The board is seeking comments on the PV by Sept. 30 and has scheduled public hearings on the document for Oct. 4 in New York City; Oct. 14 in San Francisco; and Oct. 21 in Chicago. Complete details, including how to participate in the hearings, are available in the PV.

The PV says that recognition concepts encompass two aspects of financial statements—measurement focus and basis of accounting. The measurement focus of a specific financial statement determines

what items should be reported as assets, liabilities and other elements of that financial statement. The related basis of accounting determines when those items should be reported.

The PV proposes a recognition framework for financial statements prepared using either the “economic resources” measurement focus or the “near-term financial resources” measurement focus. The latter would, from a conceptual standpoint, replace the existing “current financial resources” measurement focus that is used in governmental fund financial reporting. The proposed recognition framework also includes proposed concepts

Highest-Funded Public Pension Plans

The weighted average funded ratio for all defined benefit public pension plans was 77% in fiscal year 2010, the most recent data available, according to the Public Plans Database at Boston College. The database tracks 126 state and local defined benefit plans. Only 17 plans were funded at 95% or higher.

Plan Name	Assets (in \$ millions)	Liabilities (in \$ millions)	Funded Ratio (%)
Washington Law Enforcement Officers and Fire Fighters Plan 1	\$5,587,174	\$4,619,220	121
North Carolina Local Government	\$18,732,040	\$18,458,700	101
DC Police & Fire	\$5,137,409	\$5,137,409	100
DC Teachers	\$1,671,184	\$1,671,184	100
NY State & Local Employees Retirement System	\$154,552,752	\$154,552,752	100
NY State & Local Police & Fire	\$28,365,622	\$28,365,622	100
New York City Employees Retirement System	\$42,722,172	\$42,722,172	100
New York City Teachers	\$29,388,056	\$29,388,056	100
New York State Teachers	\$106,416,832	\$106,416,832	100
Washington Law Enforcement Officers and Fire Fighters Plan 2	\$8,225,888	\$8,225,888	100
Washington Public Employees Retirement System 2/3	\$26,476,624	\$26,476,624	100
Washington School Employees Plan 2/3	\$3,612,613	\$3,612,613	100
Washington Teachers Plan 2/3	\$9,750,802	\$9,750,802	100
Wisconsin Retirement System	\$80,539,296	\$80,834,208	100
Maine Local	\$2,045,337	\$2,122,834	96
South Dakota Public Employees Retirement System	\$7,119,875	\$7,393,251	96
Delaware State Employees	\$6,908,957	\$7,090,326	96

Source: Public Plans Database, Boston College, pubplans.bc.edu

related to recognition of deferred outflows of resources and deferred inflows of resources that would assist the board in determining when those elements should be used in the standard-setting process.

The document proposes a framework for when each of two primary measurement approaches, on a conceptual basis, should be used. The primary measurement approaches are:

- **Initial-transaction-date-based measurement (initial amount).** The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount, such as through amortization or depreciation.

- **Current-financial-statement-date-based measurement (remeasured amount).** The amount assigned when an asset or liability is remeasured as of the financial statement date, including fair value; current acquisition, sales and settlement price; replacement cost; and value-in-use.

The PV identifies characteristics of assets or liabilities that would indicate from a conceptual viewpoint when each measurement approach would be appropriately applied in future standard setting.

- FASAB issued a proposal to defer the effective date of a technical bulletin related to asbestos cleanup costs.

The exposure draft of Technical Bulletin 2011-2, *Extended Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs*, proposes to delay by one year the effective date of Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, to enable federal agencies to finalize their methodology and develop an estimate of their asbestos-related liabilities.

The comment period closed Aug. 3. If adopted, the effective date of Technical Bulletin 2006-1 would be changed to periods beginning after Sept. 30, 2012. The ED is available at tinyurl.com/6cazkey.

- A FASAB committee issued a report that contains recommendations to assist in de-

veloping implementation guidance for federal General Property, Plant & Equipment (G-PP&E). The report, *Records Retention Timeframes for Property, Plant, & Equipment Research Report*, is not an authoritative source of generally accepted accounting principles.

FASAB's Accounting and Audit Policy Committee (AAPC) established the G-PP&E Task Force to create the report. The Record Retention Subgroup of the AAPC G-PP&E Task Force addressed record retention time frames and methods (hardcopy vs. electronic) for document retention that supports property, plant & equipment (PP&E) reported in agencies' general-purpose financial statements. The subgroup considered multiple aspects of record retention such as permanent PP&E records, transactional PP&E records, and hard copy vs. electronic records. The subgroup researched record-retention practices and requirements and guidance related to the subject in federal government and private-sector accounting and other standards. In particular, the subgroup reviewed the National Archives and Records Administration's (NARA) record-retention regulations and guidance applicable to federal agencies and visited with NARA's record-retention specialist.

The subgroup's recommendations to NARA are not intended as guidance for the audit/oversight community, FASAB said in a press release. For example, the recommendations are not meant to address the sufficiency of evidence to be able to draw conclusions, measure the validity of evidence, or infringe on the judgment of the oversight community. The report is intended for agency management as general guidance to assist with consistency across government regarding PP&E record retention.

The report is available at tinyurl.com/Sub98se.

INTERNATIONAL

- The Chartered Institute of Management Accountants (CIMA) launched its advanced diploma in Islamic finance (CADIF) program July 7 at the Islamic Fi-

nance News 2011 Issues & Investors Europe Forum in London.

The qualification is the first advanced diploma in Islamic finance launched by a professional chartered accountancy body, according to CIMA. It follows the launch of CIMA's certificate in Islamic finance four years ago, which, following a recent review, has been upgraded to the CIMA diploma in Islamic finance.

According to the CIMA guide *An Introduction to Islamic Finance*, the term "Islamic finance" reflects financial business that is not contradictory to the principles of Shariah law. Shariah law bans practices such as paying or receiving interest and investing in activities related to the production or sale of pork, tobacco or alcohol products and services such as pornography, gambling and entertainment. Islamic finance is conducted in accordance with these prohibitions, which are intended to promote social justice.

"Islamic finance is becoming much more prominent throughout the financial institutions of the world, rapidly growing from a niche industry to a mainstay of finance," said John Willsdon, leadership and development specialist at CIMA, in a news release. "CIMA's qualifications in Islamic finance have been developed with this switch in mind, and to help meet a global shortfall of skilled Islamic finance professionals."

Willsdon added that CIMA's new qualification offers international recognition by the industry "as an alternative to the regional qualifications available in isolated geographies. We see the Islamic finance market as particularly important, with its current global value estimated at more than \$1.1 trillion, and our aim is to provide appropriately trained human capital to sustain the industry's continued growth."

The CADIF program (tinyurl.com/3gfvbqf) is designed to benefit many types of professionals, Willsdon said. "This includes those working in the financial services sector who would like to be part of this dynamic industry, those already working in Islamic finance who want to hone their

skills and broaden their knowledge, and those in the accounting profession who advise on Islamic issues.”

Founded in 1919, CIMA represents more than 183,000 members and students in 168 countries. CIMA's curriculum prepares students and professionals in the business, industry, government and non-profit arenas.

In May, the AICPA Governing Council unanimously approved a joint venture between the AICPA and CIMA to create a credential called the Chartered Global Management Accountant (CGMA) that will launch in the first quarter of 2012. More details are available at cgma.org.

■ The SEC issued an investor bulletin July 20 (tinyurl.com/3fcswah) highlighting some of the most significant risks that foreign currency exchange (forex) transactions may pose for individual investors.

The forex market is a large and generally liquid financial market, according to

the bulletin. Banks, insurance companies and other financial institutions, as well as large corporations use the forex market to manage the risks associated with fluctuations in currency rates. However, the risk of loss for individual investors who trade forex contracts can be substantial. They include:

- Quoting conventions for currency values are not uniform.
- Transaction costs can turn profitable trades into losing transactions.
- Trading systems may not operate as intended.
- The use of high levels of leverage can produce big losses.

“Forex trading can be very risky and is not appropriate for all investors,” said Lori Schock, director of the SEC's Office of Investor Education and Advocacy, in a news release. “Individual investors considering forex trading need to fully understand the unique characteristics of this market and

consult their financial adviser before making any investment decisions.”

On July 13, the SEC issued an interim final temporary rule (tinyurl.com/3q36dyy) to permit registered broker-dealers to continue to engage in retail forex transactions for up to one year under the existing regulatory framework that applies to them when conducting such transactions. Under section 742(c) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, retail forex transactions would have been prohibited as of July 16, 2011, in the absence of SEC action.

CORRECTION

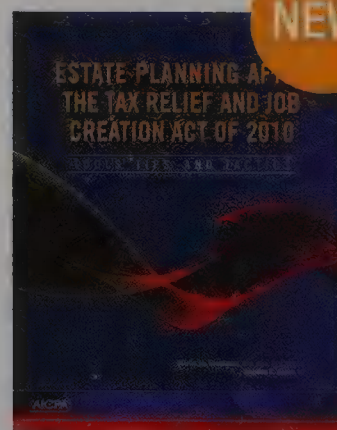
■ The September Tax Matters column misstated the standard mileage rate set by the IRS for the use of an automobile for medical and moving purposes, effective July 1, 2011. The correct amount is 23.5 cents per mile. ♦

AICPA®

New power tools help you deal with the latest estate planning tax rules!

With the recent passage of new, complex tax laws, you'll want to be prepared when your clients come to you with questions. ***Estate Planning After the Tax Relief and Job Creation Act of 2010: Tools, Tips, and Tactics*** will ensure you and your clients understand why everyone still needs to plan for their estate -- not just the ultra-wealthy. This information-packed CD provides a detailed analysis of the law, along with a wealth of practical information and tools that you can put to use immediately to help your clients, including:

- Changes that should be made to most wills and powers of attorney
- How the new estate, gift, and GST exemptions of \$5 million will affect existing and future estate planning
- Why these rules are a unique planning opportunity
- And much more!



CD-ROM: 011515
AICPA Member: \$45.00
Nonmember: \$56.25

cpa2biz.com | 888.777.7077

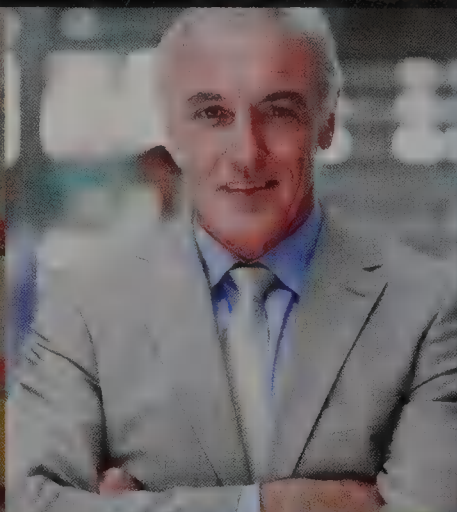
AICPA Trusted Business Advisor™ Solutions



Family Business



Not-For-Profit



Corporate



Entrepreneur

All your clients are different.

Explore how you and Paychex can work together to provide solutions that meet their unique needs.

Every client is different, but they all have one thing in common. To stay successful, they need to focus on running their businesses and not navigating payroll complexities, healthcare insurance and new tax regulations.

Your client could be a traditional family-run business faced with new W-2 reporting rules, a large corporation searching for a retirement plan, a small business experiencing growing pains, or a not-for-profit that needs to better understand healthcare reform.

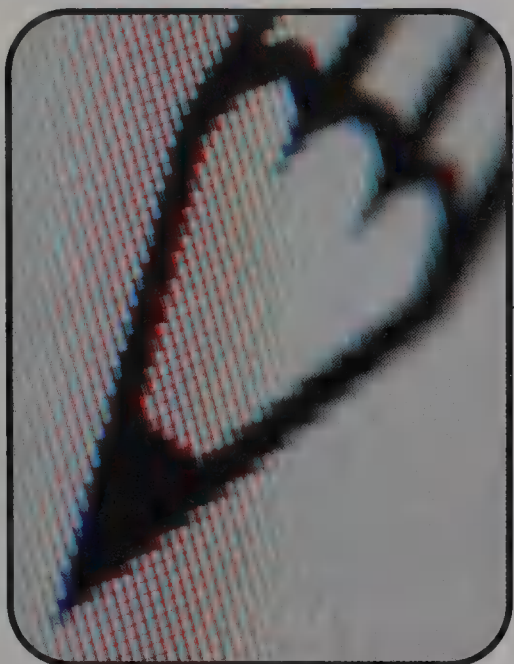
Join the more than 20,000 CPA firms that have broadened their service offerings and enhanced their roles as trusted business advisors by referring their clients to Paychex.

Participation is free and there is no obligation. Enroll online at www.cpa2biz.com/paychex, by phone at 877.534.4198 or through your local Paychex representative.

PAYCHEX

Now, every client
will benefit

ONE FREE MONTH
of payroll processing



Estate Planning Action Steps

CPAs should play a more significant role than they often do in facilitating, implementing and monitoring client estate plans. National Estate Planning Awareness Week, Oct. 17-23, is an ideal time to encourage clients to address planning. Here are some practical steps practitioners should consider:

- ✓ **If you're filing a Form 1041, U.S. Income Tax Return for Estates and Trusts, be certain that you have a copy of the fully executed trust in your file.** You must ascertain whether the trust is revocable or irrevocable, a grantor trust and to whom, whether annual demand or *Crummey* powers are required, and whether the trust is exempt from generation-skipping transfer tax. Many of these issues are complex, but all need to be addressed properly. Recommend a meeting with the client and the attorney who drafted the trust so all operational and reporting issues are clear.
- ✓ **If children or other heirs are being issued Schedule K-1s for the first time or for greater amounts than the prior tax year, make sure appropriate gift tax returns have been filed reporting the transfers.** Do you have a current operating agreement (limited liability company) or partnership agreement (family limited partnership) in your permanent file that matches the ownership interests reflected on the K-1s? If annual gifts were made, has the entity's attorney addressed whether those interests properly qualify for the gift tax annual exclusion?
- ✓ **When reviewing a Form 1040, U.S. Individual Income Tax Return, check to see whether each spouse has assets in his or her name.** Often, estate planners counsel clients to divide assets to facilitate funding a bypass trust. If Form 1099s, K-1s, property tax bills, etc. are predominantly in the name of just one spouse, it may be a tip-off that proper asset division has not been addressed.
- ✓ **Use your knowledge of clients' finances to help them establish an estate plan.** Every estate plan begins with a balance sheet, family tree and client objectives. Practitioners can more cost-effectively summarize the essential financial data than most estate planning attorneys. Practitioners who have advised a family for decades will have a better understanding of family and business dynamics than an estate planning attorney who sees the client perhaps only once every three to five years. Attending the initial estate planning conference with key data prepared in advance will save the client money and ensure more detailed and accurate background information and a more productive meeting.
- ✓ **Help clients project future needs and resources.** No client should under-

take an aggressive gift program or implement a plan to transfer significant assets to irrevocable trusts or heirs without first ensuring that they will have adequate resources for all their own needs. Not only are projections or a financial plan the foundation of any estate plan, but they also can be essential to supporting the bona fides of the transfers for asset protection and gift and estate tax audit purposes.

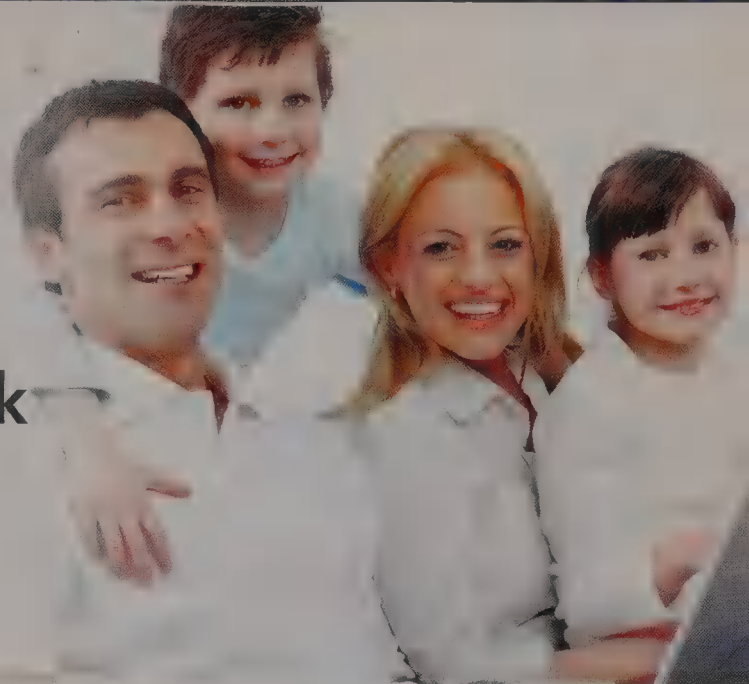
- ✓ **Remain an integral and proactive part of the estate planning team.** Practitioners who are not proactive may find clients' trust and even other returns being prepared by law firms, banks and wealth management practices. More than a loss of business for the CPA, in many cases this trend is detrimental to making sure clients' overall planning is optimized.

For a sample client letter on estate planning, go to journalofaccountancy.com; enter 20114425 in the search box.

—By **Martin M. Shenkman, Esq.**, CPA/PFS, (shenkman@shenkmanlaw.com) principal of Martin M. Shenkman PC of Paramus, N.J., and New York City and a frequent author and lecturer on wealth and estate planning.

Spouse

The AICPA Spouse Life Insurance Plan



Make your membership work for you—and your family

Apply online at cpai.com/spouse

Your AICPA membership offers you access to high quality, affordable term life insurance. But did you know your membership extends the same opportunity for term life insurance on your spouse?

Even more protection for your family

With coverage under the Spouse Life Plan, you'll be better prepared to meet your financial responsibilities, such as funeral expenses, mortgage payments and child care, if your spouse died.

And because we believe this protection is so important, your spouse is eligible for coverage even if you don't participate in an AICPA insurance plan yourself.

The Spouse Plan now provides:

- Up to \$2.5 million of Spouse Life coverage.
- The opportunity for cash refunds paid by the AICPA Insurance Trust, which are paid out of premium refunds received by the Trust from Prudential. Although not guaranteed, cash refunds on Spouse coverage have been paid every year since 1988 and can lower your costs even further.
- Select Status rates for spouses 45-79 years old, which can lower your cost of coverage by 25%-50%.

How would you make ends meet without your spouse's contributions?

Act now to request Spouse Life coverage for your loved one.

Apply online at:
www.cpai.com/spouse
or call **1-800-223-7473**
to receive a Request Form in the mail.

Not an AICPA member, but want to take advantage of all of the benefits membership offers? Visit www.aicpa.org for membership information today.



Use your Smartphone to scan this barcode.

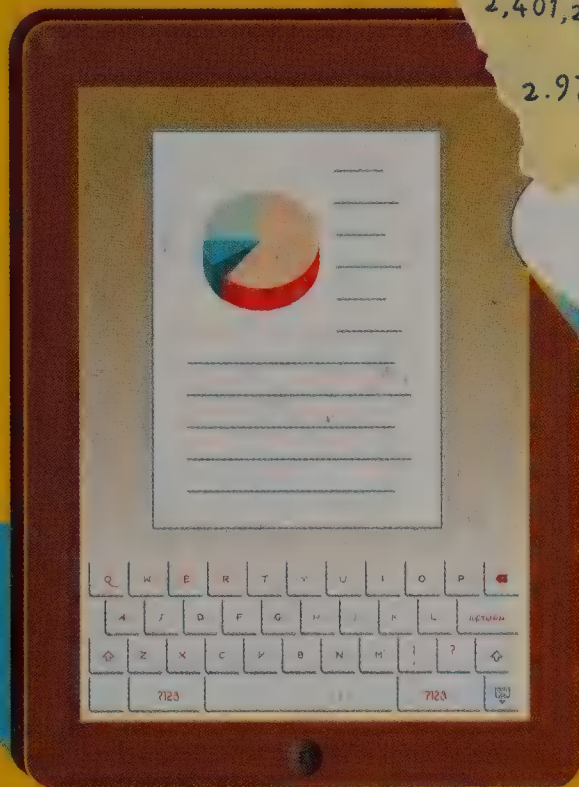
It will take you directly to AICPA's Spouse Life web page, where you can click on the "Apply Now" link and request coverage, or simply find out more about the Plan. Requesting coverage online is quick and secure.

Spouse Life Insurance is issued by The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102. Contract Series 83500. This coverage contains exclusions, limitations and reduction and terms for keeping the coverage in force. For complete details, you may contact Aon Insurance Services, the Plan Agent, at 800-223-7473.

Endorsed by the AICPA and Hosted by The Prudential Insurance Company of America

AICPA

AICPA Insurance Trust
Member Insurance Programs



The iPad Decision

What CPAs should consider when weighing a purchase of Apple's popular tablet as a business tool

by Jeff Drew

 An illustration of an iPad. The screen displays a list of numbers arranged in two columns.

168.55	2,401,238.53
4,500.00	4,200.00
12.59	245,402.97
143,597.69	363.90
1,200,458.00	29.99
3,002.35	2.97
50.34	0.75
16.95	259,420.49
1,541,458.67	1,360.20
101,498.13	1,200.00
355.23	168.55
4,500.00	253.90
643,591.49	60.98
12.59	89.99

Ask one CPA, the managing partner of a 160-employee firm, what he thinks of using the iPad in his work, and he tells you “there’s no other way to practice right now.” Ask another, the IT head of a 400-employee firm, and he tells you that his iPad is no more useful than a paperweight.

Such is the range of opinions on the iPad as a tool for CPAs. There’s no doubt the iPad can be a useful weapon in the CPA’s tech arsenal, in the right situations. There’s also no denying that the device, as currently designed, has limitations and isn’t right for everyone.

Is the iPad right for you? This article looks at what the iPad does well, what it doesn’t do well, which apps iPad users absolutely have to have, and what factors CPAs should consider when weighing

That’s because the iPad and other tablets are designed for consuming content, not creating it. For the CPA, that means the iPad is good for tasks such as reading PDFs, reviewing financial statements, going over material with clients at meetings, sending email and synchronizing Microsoft Outlook through services such as Microsoft Exchange.

What you aren’t going to be able to do easily on an iPad are tasks that require heavy data input.

What you aren’t going to be able to do easily on an iPad are tasks that require heavy data input.

whether to buy an iPad for professional use.

Numerous companies have come out—or are coming out—with tablet computers to compete with Apple, but this article focuses on the iPad because it is by far the dominant player in the space and is expected to remain so through at least next year (see sidebar “Apple Dominant in Tablet Space”).

THE iPad IS AN APPLIANCE

The first thing to understand about the iPad is that it’s not simply a smaller version of your laptop.

“It is an appliance, not a computer,” said Greg LaFollette, CPA/CITP, director of product strategy for CPA2Biz, the for-profit arm of the AICPA.

LaFollette has been teaching a CPE session this year for CPAs called “iPad for Practice.” During the course, he emphasizes that the iPad is “a wonderful tool that can be used in your practice. It is not a tool that you say, ‘I have this problem in practice, and I’m going to go out and buy this tool to solve it.’”

“Tablets are pretty pathetic for data entry,” said Randy Johnston, a technical consultant to CPAs and executive vice president of K2 Enterprises and Network Management Group Inc. “You can do a little casual email, but the types of tasks where you do data entry for audit work or data entry for tax work or for accounting work, it’s probably not going to do those well.”

Despite its limitations, the iPad has gained some traction among CPAs. Literally hundreds of the devices were spotted at the AICPA’s Practitioners Symposium and Tech+ Conference in June, and consultants such as Jim Boomer, CPA/CITP, MBA, the CIO of Boomer Consulting, are seeing more and more of their clients carrying the tablets.

Boomer tells a story regarding a pair of annual meetings with 100 members of his firm’s Boomer Technology Circles. At last year’s meeting, held soon after the iPad’s debut, attendees were asked if they owned one. Only two did. This year, at least half of the members at the meeting had an iPad or another tablet with them—an impres-

sive showing, Boomer notes, given that CPAs generally are not considered early adopters of new technology.

Early evidence indicates the number of accountants using tablets for work is small but growing. A survey of 1,377 AICPA members completed in January found that 10% owned an iPad or another tablet for personal use, while 6% owned one for business use. A Thomson Reuters survey completed in May found that, among 1,951 users of the company’s UltraTax CS software, 7% already use tablets, with another 5% planning to use them and nearly 20% planning to investigate their use.

What can an iPad do for you and your business? As with almost everything with the iPad, it all starts with the apps and the accessories.

WHAT THE iPad DOES WELL

As this article runs through the types of tasks the iPad handles well, you’ll notice the critical role played by a number of applications and accessories. The key accessory is a wireless keyboard case, such as the Logitech Keyboard Case by ZAGG. The keyboard case houses the tablet while also providing a keyboard to users who are not comfortable typing directly on the iPad screen.

Numerous apps can add to the iPad experience. Apple reports that there are more than 100,000 apps for the iPad alone, and that doesn’t count the more than 425,000 apps for the iPhone—most of which will work on the iPad because the devices use the same operating system. So how do you sort through all the apps to find the ones you need? This section on what the iPad does well touches on numerous key apps. Also, you’ll find a list in Exhibit 1.

Let’s take a look at the strengths of the iPad. **Note:** The details in this article are based on the iPad 2.

The iPad travels well. Even with a keyboard case, an iPad can fit easily into a briefcase for a quick jaunt to a client meeting or sit comfortably on your lap as you are reading on a plane.

“I can just throw it in my bag and take it with me,” said N. Mark Freedman, CPA, who has been practicing for more than 40

years and uses an iPad 2.

A user of Citrix, which makes his desktop files available remotely, he uses the free Citrix Receiver app, which allows him to view his entire desktop on his iPad.

"Which allows me, in turn, to get into tax returns, tax return preparation, all my PDF files, Excel, Word," he said. "Everything that I would have in my office on my desktop is available now on the iPad when I'm out in the field, so long as I have a Wi-Fi connection."

The iPad is great for meetings. Client meetings are a huge reason Lou Grassi, CPA, swears by his iPad. As managing partner of Grassi & Co., a 160-employee firm based in Jericho, N.Y., Grassi spends much of his time meeting with clients and going over information with them.

Grassi has downloaded all of his clients' notes, in secure files, directly onto his iPad. The iPad has remote-wipe capabilities—which means that users can erase all the files remotely if they lose the device. Grassi's assistant backs up his files daily on the firm's servers.

Having all of the notes on his iPad allowed Grassi to respond quickly to an urgent client call recently.

"So last week I get a call at 5 o'clock in the afternoon where a client says to me, 'Lou, I need to see you,'" Grassi said. "So on the way to the meeting, I'm looking at all the information that I already have on

file. I'm looking at the financial statement to refresh my memory. I went right into the guy's office. I was totally updated on everything that I needed to be. And it was a very, very great, productive meeting.

"You know what, it's just the only way to go. I don't walk around with a briefcase anymore. I walk around with my iPad to everything I go to."

The iPad's design also helps to improve the dynamics of face-to-face client meetings. "Because of its lay-flat attributes, you immediately eliminate what would be the

The iPad also functions well as a second monitor, which is especially useful when out of the office. A number of apps—Air Display, MaxiVista and DisplayLink—allow users to access their desktop remotely on their iPad. Boomer prefers DisplayLink, which uses a password system to make sure that the desktop you are seeing is actually yours—which can be a problem if you are working beside someone who also is using a remote desktop access device.

"Sometimes the signals get crossed,"

The iPad's design helps to improve the dynamics of face-to-face client meetings.

barrier, the screen if you will, between you and the client," Johnston said.

Apple increased the capabilities of the original iPad by adding front and back cameras with the iPad 2. This allows for the use of video-calling applications such as Apple's FaceTime or Skype. FaceTime makes video calls with other Apple products, such as iPhones and Macs, while Skype also can connect to PCs and non-Apple smartphones. For CPAs, video calling allows for face-to-face meetings no matter how far away the client or colleague is.

The iPad works as a second monitor.

said Boomer, and you can end up seeing the other person's desktop.

For Boomer, DisplayLink allows him to create a more familiar—and productive—working environment. "When I'm on the road, because I've become so used to having two monitors in my home office, I really struggle with working on one screen now," he said.

Debbie Lambert, CPA, founder and managing partner of Falls Church, Va.-based Johnson Lambert & Co., a 140-employee firm, uses her iPad as a second screen while doing audits. As she performs the audit on her laptop, she also has a copy of the

EXECUTIVE SUMMARY

■ **Tablet computers such as the iPad are content-consumption devices, not production devices.** As such, CPAs have varying opinions on the iPad's usefulness as a work tool.

■ **Accessories and apps are key to success with the iPad.** Keyboard cases top the list of accessories, while there are a number of crucial applications, among them Documents To Go Premium, which allows you to edit and create Microsoft Office

documents on the iPad, and cloud-based, note-taking apps such as Evernote.

■ **iPads, because of their size and design, travel well and are best suited for use away from the office.** Among the tasks they handle well are note taking, accessing and reading documents, making presentations to clients and serving as a second monitor. The devices also turn on instantly with no waiting for boot-up.

■ **The remote access of client**

data with numerous applications through a new device raises security concerns. IT departments need to establish security protocols for the device, with a focus on passwords, data-access policies and remote-wipe procedures.

■ **Limitations of the iPad include the lack of a mouse,** which can make navigation cumbersome; the device's incompatibility with Adobe Flash; and the relative scarcity of applications

that handle data-heavy CPA tasks such as audits and tax returns.

■ **CPAs considering whether to buy an iPad should factor in the total cost of the device (including apps, accessories and any data plans) and what tasks the CPA wants to perform.**

Jeff Drew is a JofA senior editor. To comment on this article or to suggest an idea for another article, contact him at jdrew@aicpa.org or 919-402-4056.

financial statement open on her iPad, allowing her to cross-check figures that are on different pages in the document.

"One of the problems with reviewing financial statements is trying to get used to flipping back and forth electronically rather than on paper," Lambert said. "You know (auditors) like to make sure that things match up from footnotes to financial statements and stuff like that. What I will do is I will get the financial statements on my iPad from the cloud and also have them sitting on my laptop, so I can be on page 3 on my iPad and page 7 on my computer (on) the same set of financials."

A side benefit for Lambert, who averages three days a week on the road, is that using the iPad saves her a lot of printing.

"I've found that to be particularly handy," she said. "Because before, I would have to print the financials and, when you are on the road ... (printing) is a pain."

The iPad works well with documents. As a content-consumption device, the iPad is well suited for reading documents—business or otherwise. In the case of business files, the premium version of Documents To Go, one of the most important iPad apps, allows the device's users to read, edit and create Microsoft Office (Word, Excel, PowerPoint) documents on their iPad.

iPads also are well suited for dealing with PDF documents. Apps such as GoodReader and PDF Expert allow you to read PDF files and also mark them up—adding comments and the like.

You can also use services such as Dropbox or SugarSync to access your documents through the cloud. Apple is planning to introduce a cloud offering of its own, iCloud, this fall.

iPads are good communicators. As mentioned, iPads synchronize nicely with Microsoft Exchange, as well as other email services. In addition, other apps allow you to use online meeting services such as WebEx and GoToMeeting.

Grassi uses his system's email capabilities to send updates on client meetings to partners and other interested parties in his firm. "It's just a great way to communicate

Exhibit 1 Essential Apps

There are more than 100,000 apps just for the iPad. Here are nearly two dozen you should consider to optimize your iPad. The selections are divided by function. In most cases, you can choose just one app for each function.

To access a chart with more information on these apps—plus more than 30 others—see the online version of this article on journalofaccountancy.com. Enter 20114361 in the search box to find the article.

- **Cloud-based notes:** Evernote, MobileNoter. **Note:** The iPhone version of Microsoft OneNote can be used on the iPad, but there is not a OneNote designed specifically for the larger iPad screen.
- **Handwritten notes, sketching:** Adobe Ideas, Penultimate, PaperDesk
- **Microsoft Office (Word, Excel, PowerPoint) document creation, editing:** Documents To Go Premium
- **PDF readers, editors:** GoodReader, PDF Expert
- **Remote access to desktop applications:** Citrix Receiver, LogMeIn Ignition, Remote Desktop Lite, VMware View
- **Social app reader:** Flipboard
- **Storage:** Dropbox, SharePlus, SugarSync
- **Video calls:** FaceTime, Skype
- **Use of iPad as second monitor:** Air Display, DisplayLink, MaxiVista
- **Web meetings:** GoToMeeting, WebEx

to your partner group, sets the example that they should all follow about everyone updating everyone else in the organization," he said.

Other partners are following Grassi's lead. He estimates that 25% to 35% of the firm's partners are using the iPad, and he plans to push for more widespread adoption.

iPads are ideal for taking notes. A number of apps—most notably Evernote, but also including MobileNoter—give iPad users the ability to create cloud-based notes that are searchable and easy to access from other devices, such as a desktop computer or a smartphone. Note-taking tools rank among the most popular and essential iPad features. An app called Penultimate provides another way to take notes. This app allows you to use your stylus to jot notes by hand and also do sketches and the like.

The iPad turns on instantly. Have you ever gone to a meeting, then had to wait while your laptop booted up? That's not a problem with the iPad.

"You turn it on, it's on," Freedman said. "You don't have to wait for boot-up time when you are sitting with a client."

Over time, the iPad's speed adds up. "This is one of the greatest things in the world," Grassi said. "I can't tell you how much time I believe it saves me."

KEY ISSUES WITH THE IPAD

Even its proponents admit that the iPad has its drawbacks. Here are a few of them.

Security. The No. 1 issue with the iPad is security. The establishment of a new device connecting remotely to all kinds of company data from numerous apps creates the need for new policies and security measures to ensure that sensitive data doesn't fall into the wrong hands.

How do you ensure security? Boomer asserts that firms should approach mobile device security as its own initiative and that the key to success is passwords.

"Passwords should not be optional if you're using this device for business purposes and accessing client information," he said.

Also critical is the ability to wipe files remotely off lost or stolen iPads—or other mobile devices containing, or connected to, sensitive client data. The iPad comes with a built-in remote-wipe feature.

"I think ... a formal policy where you

have the employee sign it and understand that if they are connecting to any of the business systems and they lose their phone, they risk everything being wiped

off of that," Boomer said. "It's important that they back it up someplace else on a regular basis."

There's no mouse. The iPad's touch-

screen interaction poses problems for many CPAs. While it's easy to add a keyboard, there currently is no corresponding wireless mouse option. That means you have to touch the screen to execute commands that you would do with your mouse on your computer.

"The lack of having a mouse to move around makes it ... much more cumbersome," Freedman said. "You really have to get used to, without a mouse, being able to touch the cell you want to get into."

For example, to simply save a file, you have to use your finger to hit the save button on the screen itself. Sometimes, you have to expand the screen with your fingertips so you can make the save box big enough to tap, Freedman said.

No Flash. The iPad does not support Adobe Flash applications. That can be frustrating if you want to view content such as Flash-based videos and games. However, an app called Skyfire converts Flash videos to HTML5, a new Web standard that the iPad supports. That allows you to see Flash videos on the iPad.

Accounting software. While there are myriad iPad apps, there are relatively few accounting-specific applications. This hampers the CPA's ability to do a lot of heavy lifting on the iPad.

"The problem that I have is that the large vendors that provide us with our tax application, engagement management application, document management, portal, time and billing, etc. ... have not created the ability to utilize an iPad to access their applications/data," said Jim Bourke, CPA/CITP/CFE, partner-in-charge of firm technology at WithumSmith+Brown, a 13-office firm with more than 400 employees. "Without this ability, my iPad acts like a desk weight, as I still need my laptop and I definitely still need my BlackBerry."

Large software publishers CCH, Intuit and Thomson Reuters have limited offerings for the iPad. Most of those apps provide access to content but limited-to-no data entry. Thomson Reuters' Mobile CS recently added the ability to do time and expense entry on the iPhone and iPad. Intuit Online Payroll Mobile is a free iPhone

Apple Dominant in Tablet Space

The iPad, introduced by Apple last year, is the front-runner among tablet computers, which rank on the tech gadget scale somewhere between smartphones and laptop computers. That is, tablets are bigger than smartphones but smaller than laptops. The iPad 2, for example, has a 9.7-inch screen and weighs only 1.3 pounds. Laptops weigh from 2 to 7 pounds.

Tablets also differ from laptops in that they are touch-screen devices that don't come with a keyboard or mouse. Their design calls for users to type or do mouse-like selections directly on the screen.

Apple broke into the lead in the tablet space with the introduction of the iPad in April 2010 and sold 14.8 million of the devices by the end of the year. Competitors rushed to respond but have struggled to gain much traction, even with recent price cuts.

Apple's sales, meanwhile, have surged. The company sold 9.25 million iPads during its fiscal third quarter, which ended June 25. That's up from 4.7 million sold during the company's second fiscal quarter. The introduction in March of the iPad 2 fueled the near doubling in sales.

Increased competition over the past year has chipped away at Apple's market share, which once hovered over 90%, but the company remains the dominant player, with the iPad and iPad 2 combining to control 66% of the market in the first quarter of calendar 2011, according to a report released in July by research firm IDC. Devices running on versions of Google's Android operating system claimed 34% of the market, but of the swarm of iPad rivals that have been released, only the Samsung Galaxy Tab can claim a double-digit market share, at 12%, said Bob O'Donnell, IDC vice president—Clients and Displays.

"The rest is just noise," he said.

Look for the rapid growth of the tablet market to continue, with the iPad leading the way. IDC on July 8 bumped its projection of 2012 tablet sales to 53 million, from a previous prediction of 50 million, despite a slightly slower than expected first quarter. As for next year, IDC projects that consumers will buy 80 million tablets.

Neither Apple nor IDC provided a sales breakdown between the original iPad and the iPad 2. O'Donnell did confirm, however, that the iPad 2 has emerged as the No. 1 selling tablet.

The operating system Apple uses on the iPads, iOS, did lose 8 points of market share to Android devices from the fourth quarter of 2010 to the first quarter of 2011. So, does IDC foresee Apple losing its market share lead as the tablet market continues to expand in 2012?

"No, we don't," O'Donnell said. "We see (competitors) will continue to challenge Apple as a share of the total, but iOS will remain larger than Android."

For more on the tablet market, including capsule profiles of selected tablets, see the online version of this article on journalofaccountancy.com. Enter 20114361 in the search box to find the article.

app that also works on the iPad and allows accountants to enter employee hours, review, approve and pay staff. To use the app, users must already subscribe to Intuit Online Payroll, QuickBooks Payroll for Mac, Intuit QuickBooks Online Payroll or Intuit Online Payroll for Accounting Professionals. Other vendors, including ADP, also offer online payroll apps.

But robust tax preparation, auditing and accounting apps? Those are not yet available.

The growth of the iPad as a tool for CPAs will depend on the development of core accounting software, Boomer said.

TO BUY OR NOT TO BUY: THAT IS THE DECISION

So, should you embrace the iPad? That depends on what you are going to use it for and whether it makes sense for you to spend the money.

And you need to understand that there's more cost to buying an iPad than just purchasing the device. You also have to decide which accessories and apps you want. That pushes up the cost of ownership.

"Right now, my best iPad estimate is that you are going to spend \$900 to \$1,000 per iPad to deploy," Johnston said. "If you purchase an iPad, you will need accessories like the BoxWave stylus, covers, stands and keyboards to get the most of your investment."

Among the buying decisions you have to make with the iPad is whether you want your machine to connect only through Wi-Fi or to also have its own 3G cellular connection. The Wi-Fi version is cheaper and doesn't require monthly fees, but being dependent on finding a Wi-Fi connection can hurt your ability to work on the road.

If you decide to go with 3G, then you have to pick a data plan from either Verizon or AT&T, adding another layer of cost to the equation. Those subscriptions run from \$15 to \$80 per month, or more, depending on how much data you consume.

One way to mitigate your data plan costs is by buying a mobile hotspot, or MiFi, which is a device about the size of a

pack of cigarettes that allows you to connect multiple Wi-Fi-enabled devices through one data plan. In other words, you can cover your laptop and iPad through one subscription instead of needing one for each device. The downside is that you have to carry another device with you.

The iPhone can act as a mobile hotspot, but such use quickly drains the battery, said David Cieslak, CPA/CITP, a principal with Arxis Technology Inc.

Then there's the question of how much memory you need on your iPad. Options range from 16 to 64 gigabytes, and the prices span a wide range as well. You can pay as little as \$499 for a 16GB, Wi-Fi iPad 2 or as much as \$829 for an iPad 2 with 64GB and 3G service.

The array of choices can paralyze some prospective iPad buyers, said LaFollette, who advises his CPE students not to sweat too much over the decision.

"So I just tell them, 'Look, go out and buy the 16 gig, Wi-Fi only and you'll be happy,'" he said. "And maybe move up to the 32 gig, but don't drive yourself nuts trying to do all of these other things. It's not so much which one as it is if. It's really a binary choice. It's yes or no."

In the end, if you are a partner in a CPA firm, or another financial professional who reviews documents but does little data entry, the iPad might be a great choice.

"If you only use the iPad for consumption, not for data entry," Johnston said, "you've got something that's pretty usable. Interesting thought ... for most partners, that's all they need." ♦

READ ON

JournalofAccountancy.com

To access a chart with details on more than 50 iPad applications and information on browser-based applications from major accounting-software publishers, and to read capsule profiles of selected tablets, see the online version of this article on journalofaccountancy.com.

Enter 20114361 in the search box to find the article.

AICPA RESOURCES

JofA videos

- "Why the iPad Is a Game Changer"
- "Tech Tips From Clarke Price"

Use journalofaccountancy.com/multimedia to find videos. Click on the "Video" tab, then scroll down the right panel of the video player to find recent videos. To find older videos, click the video player's "Archived Videos" tab.

CPA Insider articles

- "Smartphones and Tablets," Aug. 1, 2011, tinyurl.com/3vehfra
- "Do Your Mobile Devices Empower Your Business?" July 25, 2011, tinyurl.com/3wk5lme

Sign up for the AICPA's *CPA Insider* e-newsletter and view back issues at tinyurl.com/23prhp.

Publication

- *Management of an Accounting Practice Handbook* (#090407, loose-leaf version; #MAP-XX, e-MAP, online subscription)

Conference

- Practitioners Symposium and TECH+ Conference in partnership with the Association for Accounting Marketing Summit, June 11–13, 2012, Las Vegas

For more information or to make a purchase or register, go to cpa2biz.com or call the Institute at 888-777-7077.

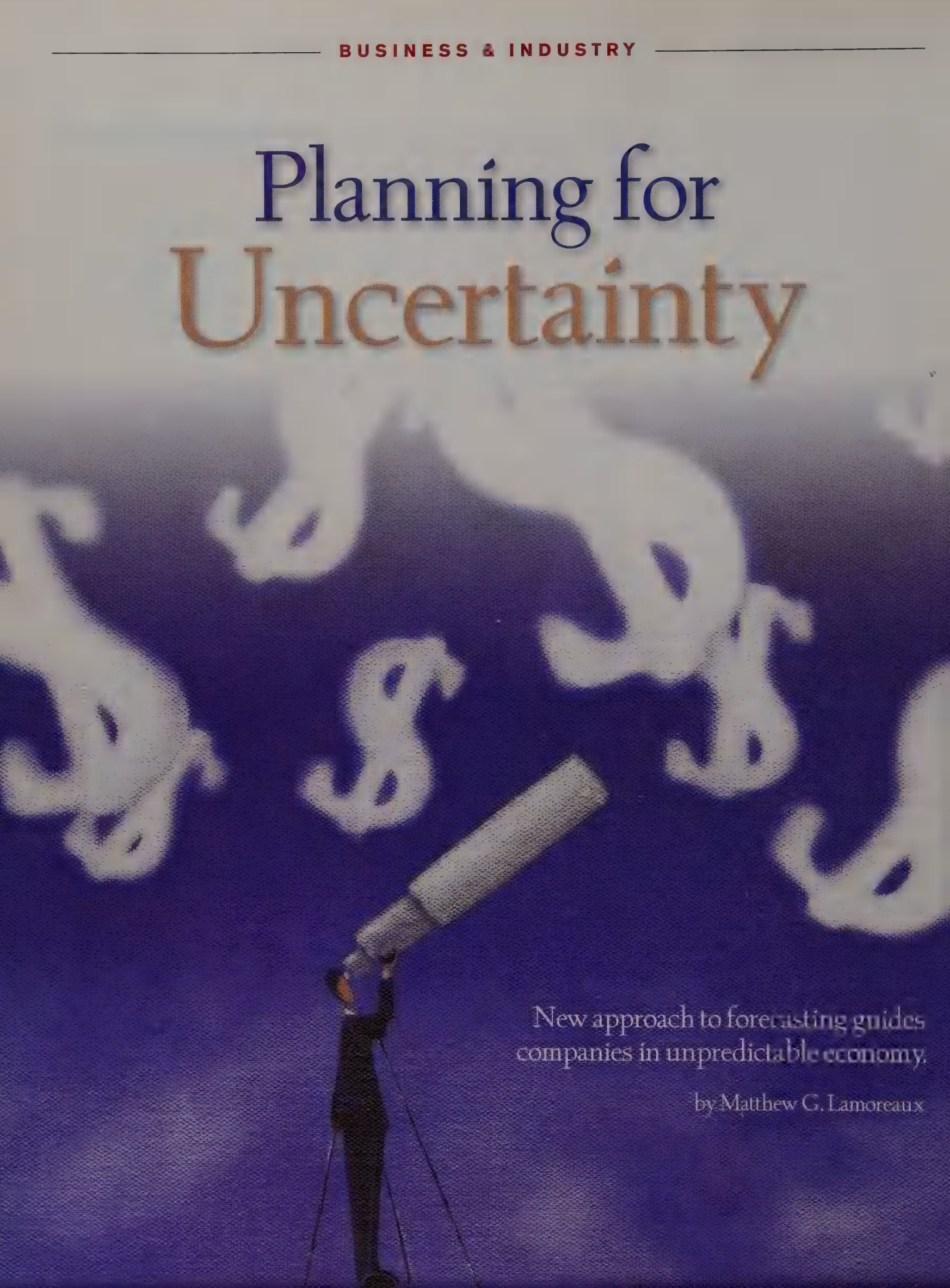
Website

- Private Companies Practice Section's Information Technology page, tinyurl.com/3rgmqrk

IT Center and CITP credential

The Information Technology (IT) Center provides a venue for CPAs, their clients, employers and customers to research, monitor, assess, educate and communicate the impact of technology developments on business solutions. Visit the IT Center at aicpa.org/INFOTECH. Members who want to maximize information technology to increase efficiency and boost profits may be interested in joining the IT Membership Section or pursuing the Certified Information Technology Professional (CITP) credential. For more information about the IT Membership Section or the CITP credential, visit aicpa.org/CITP.

Planning for Uncertainty

A person in a dark suit stands at the bottom center, looking through a large telescope. The background is a dark blue gradient with numerous white dollar bills falling from the top, creating a sense of uncertainty and financial focus.

New approach to forecasting guides
companies in unpredictable economy.

by Matthew G. Lamoreaux

With national debt crises in both Europe and the United States, a shaky recovery from the deepest recession since World War II and volatile currency markets, it's not surprising that recent research conducted by the Beyond Budgeting Round Table found that more than two-thirds of corporate budgets are irrelevant before the end of the first quarter. The problem is exacerbated by the inherent weaknesses of the traditional budgeting process, according to Steve Player, principal with Beyond EPS Advisors and program director of the Beyond Budgeting Round Table.

Budget targets are based on assumptions, and the facts on which those assumptions are based can change even in a relatively stable environment. In today's environment it is almost impossible to predict what will happen.

"Managers spend far too much time explaining again and again why the assumptions in the budget plan are no longer relevant," Player said.

But faulty assumptions are not the only problem with traditional budgets, according to Player. The greatest problem is that budgets are typically used as performance appraisal tools. "This provides an incentive for managers to negotiate for the lowest acceptable target," said Player. "The result is that growth potential is left on the table."

So if you don't measure performance against budget targets, how do you measure it? The answer, according to Player, is to look at performance relative to peers

who are experiencing the same market conditions.

Another problem, on the spending side, is that employees often see budgeted expenditures as an entitlement, which can lead to poor cost controls.

The Beyond Budgeting Round Table, an international organization dedicated to improving the financial planning process and whose membership includes American Express, tw telecom and Unilever, says companies that follow 12 principles can eliminate budgets entirely and enhance performance in the process (see sidebar "12 Beyond Budgeting Principles").

Some of the first principles CPAs in financial leadership positions should consider, according to Player, are those dealing with planning and controls via rolling forecasts rather than traditional budgets.

ROLLING FORECASTS

The purpose of forecasting is to get the most realistic picture possible of the future

Exhibit 1 Frequency of Forecast Updates

		VARIABILITY	
		LOW	HIGH
CRITICALITY (Economic Relevance)	HIGH	Less Frequent Routine Update Or By Exception	Frequent Routine Update
	LOW	Infrequent Update Only If Necessary	Less Frequent Routine Update

Source: Beyond Budgeting Round Table presentation by Southwest Airlines.

EXECUTIVE SUMMARY

■ The facts on which budget assumptions are based change even in relatively stable environments. This makes most budget targets obsolete shortly after they are prepared.

■ Traditional budgets, through ties to performance evaluation, incentivize negotiating the lowest acceptable target. This leaves growth potential on the table. Budgets also can encourage inappropriate spending and discourage appropriate investment.

■ The purpose of forecasting is to get the most realistic picture possible of the future for as far out as a company's management can see. The business forecast should link short-term operational plans to moving toward medium-term strategic goals.

■ Rolling forecasts typically go out five quarters. But you only want to go out as far as people can see. Otherwise, it becomes a math exercise.

■ Common mistakes include: Forecasting for a plan year rather than in rolling forecasts; confusing forecasts with targets; demanding forecast accuracy; relying on Excel spreadsheets; providing excessive detail; relying on probability-based forecasting; immediately assuming a growth forecast; treating forecasting as a "special event"; making one time horizon fit all forecasts with the same interval; and failing to learn from your forecast record.

■ Successful implementation requires unified support from management. The support typically comes from a high level of frustration with the current process.

Matthew G. Lamoreaux (matt@mattlamoreaux.com) is a freelance writer.

To comment on this article or to suggest an idea for another article, contact Kim Nilsen, executive editor, at knilsen@aicpa.org or 919-402-4048.

Exhibit 2 Southwest Airlines' Forecasting Frequency

	Economic Relevance	Variability	Speed of Response	Update Frequency	Forecast Horizon
Revenues	High	High	High	Daily	Quarter
Labor Costs	High	Low	Medium	Twice monthly	Six months
Fuel Costs	High	High	Medium	Weekly	Quarter
Maintenance Spending	Medium	Medium	Medium	Twice monthly	Six months
Advertising Spending	Medium	Medium	High	Monthly	Six months
Aircraft Ownership Costs	Medium	Low	Low	Quarterly	Year
Airport Rates and Charges	Medium	Medium	Low	Weekly	Six months
Other Operating	Medium	Medium	Medium	Twice monthly	Quarter

Source: Beyond Budgeting Round Table presentation by Southwest Airlines.

for as far out as a company's management can look.

"If you have a short-term operational plan and a long-term strategic plan for what you want to become, the business forecast focuses on the in-between part, how to move from where I am to where I want to be," said Player.

The Beyond Budgeting Round Table recommends the rolling forecast go out at least five quarters, but many span six quarters. "Really you want to go out as far as people can see," said Player. "For some, it might be six months. If you go beyond what people can see, then it just becomes a math exercise."

UPDATE INTERVALS

The intervals when a given item's forecast is updated should reflect the item's variability and importance to your business

(see Exhibit 1).

"If it's highly critical and highly volatile, you look at it very frequently," said Player. "If you have things that are

The purpose of forecasting is to get the most realistic picture possible of the future for as far out as a company's management can look.

high on one measure and low on the other, you look at them with a medium frequency. If they're low on both, you can drop back to an infrequent update only as necessary."

For example, Southwest Airlines, a member of the Beyond Budgeting Round Table, updates its revenue forecast daily and its fuel forecast weekly. But other items may be forecast bimonthly, month-

ly or quarterly (see Exhibit 2). The updates only cover critical items that are changing. Player noted "some organizations such as American Express take an ad hoc approach with forecasts triggered by when significant changes have occurred in their business."

Player compared managing a business to navigating a ship. "The ship represents your organization's cost structure. It is configured based on thousands of decisions you've made in the past. You're sailing in this competitive sea, and over time you can change everything, but you can't do it overnight. The planning process is about how to forecast 'what do I need to do differently.'"

COMMON MISTAKES

But many forecasting systems fail to achieve their objective, according to Player, for a variety of reasons. Player identifies the following common mistakes to avoid in forecasting:

Forecasting to the wall. Many forecasts focus on the plan year. So each month or quarter into the plan year, the forecast period diminishes by the elapsed time in the plan year (see Exhibit 3). The rolling forecast maintains a continually updated horizon, usually five quarters out (see Exhibit 4).

Confusing forecasts with targets. The purpose of forecasting is to show the most

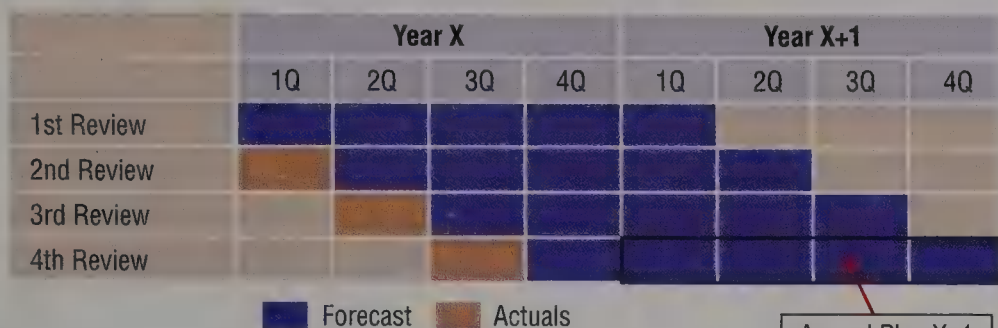
Exhibit 3 Forecasting to the Wall

Month	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	End of Year
Forecast 1													
Forecast 2													
Forecast 3													

Source: Beyond Budgeting Round Table.

Forecast Actuals

Exhibit 4 Five-Quarter Rolling Forecast



Source: Beyond Budgeting Round Table.

realistic picture of how your organization is tracking toward its objectives, not the picture you want to see. "When a management team allows a forecast and a target to be equal, it becomes a 'trust me' forecast—'Trust me I can hit the plan target,'" said Player. "The problem with this approach is that it eliminates any robust discussion of what actions are needed to

vendors, see the online version of this article at journalofaccountancy.com; enter 20114354 in the search box).

Excessive detail. The rule of thumb, according to Player, is to limit the detail forecasted to what can realistically be used by management. "You want your managers spending more time using the data than collecting it," he said.

Make sure growth is based on underlying physical factors rather than management's hopes that things will get better.

reach the target, what risks have to be managed and what resources are required. It also obscures visibility into how to grow faster."

Demanding forecast accuracy. Forecasting requires assumptions, and conditions will change. Pressure to make forecasts more accurate can provide an incentive for gamesmanship where managers provide lowball forecasts and then stop when they are reached.

Relying on Excel spreadsheets. Unless you are a small company with a single user, Player advises that Excel should be avoided as a forecasting tool due to the high likelihood for error and the inherent constraints of a desktop spreadsheet environment. He recommends companies that are concerned with systems expense look to cloud-based systems (for a list of cloud-based forecasting system

Relying on "probability-based forecasting." Some organizations manage uncertainty by estimating the probability that an event will occur. They then plan using that percentage estimate so an item with a 60% chance of occurring would result in a plan that includes 60% of related revenue and expense. Player warns "to be careful with this approach since many events are 'yes or no.'" For instance an acquisition or government approval to sell a new drug is either yes or no. In those cases, that plan should reflect two separate scenarios rather than a blended approach.

Immediately assuming a growth forecast. Forecasts frequently suffer from what Player calls the "hockey-stick effect" where the forecast gets significantly better as it approaches the end of the plan year. Make sure growth is based on underlying

12 Beyond Budgeting Principles

Governance and Transparency

1. **Values.** Bind people to a common cause, not a central plan.
2. **Governance.** Govern through shared values and sound judgment, not detailed rules and regulations.
3. **Transparency.** Make information open and transparent; don't restrict and control it.

Accountable Teams

4. **Teams.** Organize around a seamless network of accountable teams, not centralized functions.
5. **Trust.** Trust teams to regulate their performance; don't micro-manage them.
6. **Accountability.** Base accountability on holistic criteria and peer reviews, not on hierarchical relationships.

Goals and Rewards

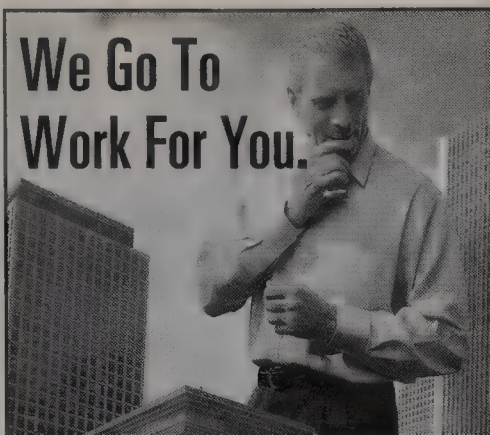
7. **Goals.** Encourage teams to set ambitious goals; don't turn goals into fixed contracts.
8. **Rewards.** Base rewards on relative performance, not on fixed targets.

Planning and Controls

9. **Planning.** Make planning a continual and inclusive process, not a top-down annual event.
10. **Coordination.** Coordinate interactions dynamically, not through annual budgets.
11. **Resources.** Make resources available just-in-time, not just-in-case.
12. **Controls.** Base controls on fast, frequent feedback, not budget variances.

Source: Beyond Budgeting Round Table, bbt.org.

We Go To Work For You.



Go with the biggest in the industry.

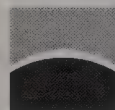
We are North America's leader in marketing accounting and tax practices because we understand the value of your firm, know how to market it and have thousands of buyers who want a practice. Our biggest concern is you. Our broker's wealth of experience culminates to make sure your comfort level is met, your questions are answered and everything is being done to sell your firm.

Give us a call today so that we may **go to work for you** and produce the results you desire.

1-888-847-1040

www.AccountingPracticeSales.com

Free Registration For Buyers



ACCOUNTING
PRACTICE
SALES

NORTH AMERICA'S LEADER IN PRACTICE SALES

AICPA®

Business News Delivered Daily to Your Inbox

If you're not receiving the CPA Letter Daily you're missing a daily roundup of the latest business, finance, tax, and accounting news from major news outlets, as well as timely technical and professional information from the AICPA.

Visit <http://www.smartbrief.com/cpa/> to sign up.

BUSINESS & INDUSTRY

AICPA RESOURCES

JofA article

■ "Scenario Planning: Navigating Through Today's Uncertain World," March 2011, page 22

Use journalofaccountancy.com to find past JofA articles. In the search box, click "Open Advanced Search" and then search by title.

Publications

- *Accountant's Business Manual* (#029418, with CD-ROM toolkit; #ABM-XX, online subscription)
- *Practical Financial Decision Making: Essential Tools* (#091091, paperback; 091092PDF, on-demand)
- *Risk Assessment for Mid-Sized Companies: Tools for Developing a Tailored Approach to Risk Management* (#091101)

CPE self-study

- Critical Skills for Creating Great Budgets: Maximizing Profits, People and Power (#733782)
- Strategic Planning: A Simplified and Workable Approach for Private Companies (#745270)

For more information or to make a purchase, go to cpa2biz.com or call the Institute at 888-777-7077.

On-Site Training

- Critical Skills for Creating Great Budgets: Maximizing Profits, People and Power (#CSCB)
- Financial Forecasting and Management Decisions (#FFMD)
- Mastering the Applications of Budgeting While Side Stepping the Pitfalls (#MAPB)
- Strategic Planning: A Simplified and Workable Approach for Private Companies (#SPPC)
- The Nuts and Bolts of Budgeting (#BFAZ)

To access courses, go to aicpalearning.org and click on "On-Site Training" then search by "Acronym Index." If you need assistance, please contact a training representative at 800-634-6780 (option 1).

OTHER RESOURCES

Websites

- Beyond Budgeting Round Table, bbtr.org
- Forecasting Improvement Road Map, bbtrna.org/letitroll

physical factors rather than management's hopes that things will get better.

Treating forecasting as a "special event." Forecasting should be an integral, ongoing part of monitoring the business.

Using only one time horizon for all forecasts with the same interval. Use different time horizons for different decisions such as sales and operations planning, financial planning and capital planning. But integrate the system into a unified whole.

Failing to learn from your forecast record. Forecasting should teach you things about your business that you didn't know before, and that information should be acted on. If you're not getting actionable data, there's something wrong with what you're collecting. If you're collecting actionable data but not using it to manage your business, there's a communication problem.

IMPLEMENTATION

The annual budgeting process has long been described as one that takes too long, costs too much and is out of date often before it is printed. Companies such as American Express, tw telecom, Group Health Cooperative, Park Nicollet Health Services and Unilever have implemented rolling forecasts to overcome these problems.

"The frustrations of the current budgeting process provide a reason to change. Many organizations have moved to rolling forecast as the first step to more effective ways to plan and control their organizations," Player said. ♦

READ ON >>

JournalofAccountancy.com

Share your budgeting experience and hear from other CPAs about their lessons learned. Visit facebook.com/JournalofAccountancy and click "Discussions" to participate.

Also, for a list of vendors that provide rolling forecast tools, see the online version of this article at journalofaccountancy.com. Enter 20114354 in the search box.

IFRS Certificate Program

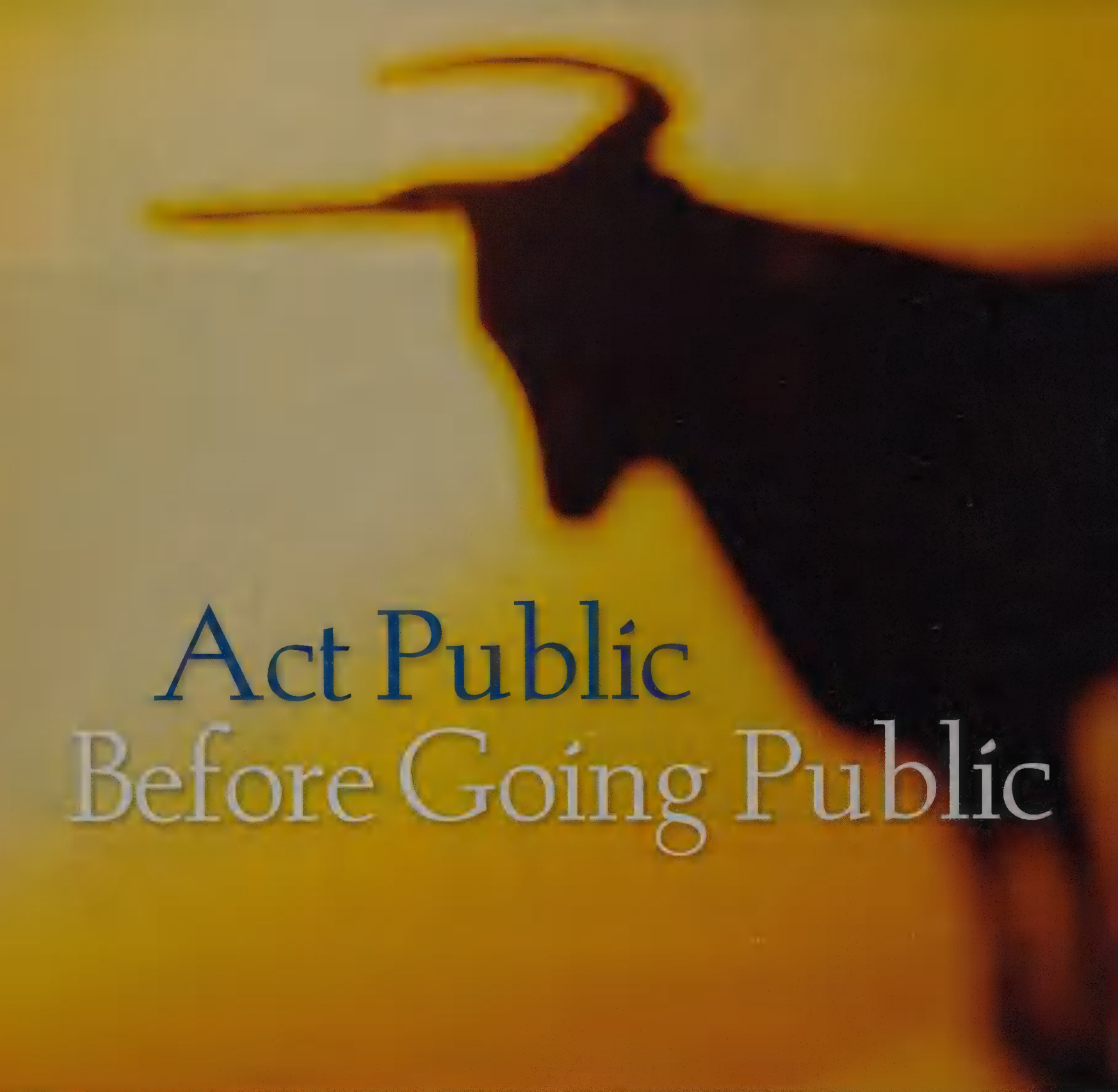


Enroll in the program today and enjoy expanded career opportunities as the momentum to permit or require IFRS continues to spread around the world.

The IFRS Certificate Program includes a comprehensive, integrated curriculum of 25 online self-study courses and additional resources to provide basic training, knowledge and practical guidance on the international financial reporting standards. Developed by subject matter experts from around the world, this scenario-based series of courses uses multimedia elements such as audio, video and interactive exercises and case studies to guide you through the concepts under each area of IFRS.

The program will benefit CPAs, accountants and financial reporting professionals working in:

- Multinational organizations
- U.S.-based subsidiaries of foreign parent corporations
- U.S.-based parent companies with international subsidiaries that have adopted IFRS
- Public companies
- Large private companies
- Public practice who serve public or international companies with audit, preparation, or advisory services



Act Public Before Going Public

How to manage tax
accounting when
preparing for an IPO

by Douglas M. Sayuk, CPA;
Matthew H. Fricke; and Shamen
R. Dugger, Esq., CPA

After several years of increasing numbers of U.S. companies making initial public stock offerings, starting in late summer 2011, some companies postponed going public as economic and market conditions grew turbulent and uncertain. But even a holding pattern might have some advantages if companies use that time to better prepare for the numerous demands that accompany going public, such as audit and tax assistance in preparation of financial statements. In doing so, companies will be looking to their tax department and advisers for guidance in navigating the labyrinth of complexities associated with managing the tax accounting component of the IPO process.

Exhibit 1 U.S. IPOs

	2004	2005	2006	2007	2008	2009	2010
Number of Deals	216	192	196	214	31	63	154
Total Proceeds (billions)	\$42.8	\$33.7	\$42.2	\$49.0	\$24.5	\$21.9	\$38.7
Average Deal Size (millions)	\$198	\$176	\$215	\$229	\$790	\$348	\$251

Source: 2010 Global IPO Market Review and 2011 Outlook, Renaissance Capital LLC, Jan. 3, 2011, tinyurl.com/42xspm4.

pipeline stopped up by market volatility," Aug. 10, 2011), "Analysts say they don't believe IPO activity will dry up in the same way it did during the global financial crisis in 2008." Volatility drives the "stressed" capital to the sidelines, the article said, quoting California IPO adviser Lise Buyer. "The buyers who are left are the dream team buyers of long-standing, big mutual fund companies who tend to have a longer-term horizon," Buyer said. "So while the price might come down, the quality of the investor goes up."

Perhaps the most important advice that a company should follow in preparing its tax function for an IPO is to "act public before going public." From perfecting the tax team and refining internal controls to establishing a quarterly close process and preparing interim tax provisions, it is important that the pre-IPO company operate as if it is public with respect to all key facets of its tax function. Only then will the pre-IPO company experience a smooth and successful transition to public status.

Following is a step-by-step guide instructing private companies on how to "act public" with respect to their tax function before starting the IPO process.

1. ESTABLISH AN INDEPENDENT, PROFICIENT TAX TEAM

The level of complexity will increase when the company becomes public. Many advisers who can offer basic, cost-effective services to a private company may no longer be adequate for a public company.

Therefore, a private company must review internal resources and external advisers to ensure they employ the necessary technical and public company expertise before initiating the IPO process. Most companies will experience some level of increased costs associated with their tax accounting and should prepare for that outlay.

Private companies may find it efficient to rely on their external audit firm to provide many tax services for the company, including the tax provision preparation. However, additional caution must be taken as a company prepares itself for an IPO to ensure continued auditor independence.

Independence requirements tend to be more lenient for auditors of a private company, held primarily to AICPA independence standards, than those of a public company, subject to more restrictive PCAOB/SEC independence requirements. What is considered a permissible non-managerial service under the AICPA independence rules may be considered an impermissible managerial service under PCAOB/SEC requirements. This is especially true with respect to tax provision preparation under FASB Accounting Standards Codification (ASC) Topic 740, *Income Taxes* (including assistance with all component parts of the tax provision, such as ASC Subtopic 740-10, formerly FIN 48, *Accounting for Uncertainty in Income Taxes*). It is also true with respect to assistance with developing and maintaining internal controls. Pre-IPO companies and

Earlier this year, evidence indicated IPOs had been rising for several years after previous doldrums (see Exhibit 1). The U.S. was again the No. 1 market for IPOs ("Take that China! U.S. is Number One (in IPOs)," *The Wall Street Journal*, June 16, 2011).

Current economic volatility may delay IPOs, but it is not expected to curtail their eventual advancement. According to an article in the *Chicago Tribune* ("IPO

their advisers should review the company's tax services to ensure that, where tax assistance is provided by an external audit firm, independence will be maintained under both AICPA independence rules as well as the more restrictive PCAOB/SEC requirements for all years incorporated in SEC filings.

For tax services that are considered permissible, nonmanagerial services (services other than tax accounting) under both AICPA and PCAOB/SEC independence rules, the company may continue to choose the audit firm to perform the

work. However, such tax services, though permissible, will require audit committee approval. Proper measures should be taken to ensure work is approved well before the services are rendered.

2. DEVELOP AND REFINE TAX INTERNAL CONTROLS

Although the Sarbanes-Oxley Act of 2002 (SOX) is not expressly applied to private companies, many private companies have adopted its best practices in some form. However, an IPO will trigger re-

quired compliance with SOX rules. Therefore, we recommend developing and refining tax internal controls more than 12 months prior to the IPO to facilitate the transition from private to public status.

Although tax internal controls should be tailored expressly to a company's specific tax function, Exhibit 2 provides a basic example of what tax internal controls may include.

3. IMPLEMENT AND PRACTICE A QUARTERLY CLOSE PROCESS

Private companies generally are required to file financial statements annually without a compressed turnaround time, which makes one of the most difficult aspects of preparing for an IPO the adjustment required to file interim financial statements within the typical 40- to 45-day allotment. Under a standard public company closing schedule, the tax department or advisers may have only one to three days to complete the analysis upon receipt of the final quarterly financial data. Such challenges naturally permeate into the tax provision process.

The best way to begin introducing an interim tax provision cycle is to begin each quarterly tax provision process with a kickoff meeting between the company and its advisers. These meetings are useful to identify potential issues for the period and establish a specific timeline for

Exhibit 2 Typical Internal Tax Controls

Control Objectives	Risk Implications	Control Activities
Accuracy is derived through use of an independent tax expert.	An inaccurate tax provision prepared by a party that is not independent	The company engages an independent tax service provider to calculate and prepare the global income tax provisions and prepare related footnote disclosures in the company's financial statements.
The quarterly tax provision is complete.	An incomplete tax provision that does not capture all the company's key issues	The controller and CFO meet with the tax service provider at least quarterly to discuss tax issues or tax contingencies.
The quarterly tax calculation is accurate.	Controller and CFO do not adequately review or understand the quarterly tax provision	On a quarterly basis, the tax computation package prepared by the tax service provider is reviewed and approved by the controller and the CFO.

EXECUTIVE SUMMARY

■ **Private companies considering making an initial public stock offering** must start adapting their tax function well in advance of going public. Tax accounting and its management can take at least seven steps:

■ **(1) Make sure auditor independence is established and maintained** under PCAOB/SEC rules as well as those applicable to auditors of private companies.

■ **(2) Develop and refine tax internal controls** consistent with Sarbanes-Oxley requirements.

■ **(3) The closing schedule for quarterly financial statements** by public companies typically compresses the time available for tax analysis. Greater communication and performing as much of the work in advance as possible can help.

■ **(4) More comprehensive and complete tax provision workpapers** accompanied by a detailed memorandum can also help make the tax provision model more nimble.

■ **(5) Potential tax-specific**

issues of an IPO can include a change in tax attribute limitations, adjusting deferred tax assets, IRC § 409A issues with respect to stock options, and public company limits on deductible executive compensation.

■ **(6) Because an effective tax rate reconciliation** will be part of the public company's SEC filings, companies should undertake reduction strategies before an IPO.

■ **(7) Certain tax-related financial statement footnote disclo-**

tures should be aligned with those required for public companies.

Douglas M. Sayuk (doug@clifftondouglas.com) and **Matthew H. Fricke** (matt@clifftondouglas.com) are partners, and **Shamen R. Dugger** (shamen@clifftondouglas.com) is a director, all with Clifton Douglas LLP of San Jose, Calif.

To comment on this article or to suggest an idea for another article, contact Paul Bonner, senior editor, at pbonner@aicpa.org or 919-402-4434.

Exhibit 3 Features of Tax Provision Workpapers

Review Feature	Description
Table of contents	Interactive table of contents linked to workpaper support
Executive summary	Summarizes facts and assumptions, rationale for conclusions and flux analyses
Procedure checklist	Comprehensive, to ensure workpaper completeness
Diagnostics schedule	Provides an analytic comparison of key figures
Referencing system	Customized referencing system reflecting audit requirements (for example, internal controls, preparer notations, mathematical formulas)
Proofs and reconciliations	Detailed throughout to validate data and ensure computational accuracy

the tax provision preparation and review. The meetings also are useful planning tools to assign responsibility for information gathering and to determine the most efficient means of acquiring necessary data (especially in the case of multiple foreign jurisdictions).

Another excellent means for private companies to expedite their interim tax provision turnaround time is to front-load as much of the tax provision process as possible prior to quarter close. Various estimates used in the interim tax provision may be "rolled forward" from one quarter to another without any material changes (for example, state apportionment and credit calculations). Similarly, some data may be available prior to quarter-end, allowing that portion of the tax provision to be completed prior to quarter close (for example, projected financial data, filed tax returns for provision-to-return true-up purposes, and stock-based compensation). At times the quarterly tax provision may be completed using projections and other estimates before quarter close, thereby requiring only minor changes to the quarterly tax provision once the official trial balance and other final data are available.

Part of expediting the tax provision process includes immediate communication of new key issues to the auditors as they arise. This provides the external audit

firm with adequate time to research and obtain technical guidance. Failure to communicate new key issues to the audit team can slow down the quarterly tax provision process immensely, as audit reviews must be reperformed, tax provisions revised and draft financial statements updated. Such adjustments also may have the deleterious effect of creating many different tax provision versions that can further complicate and slow the quarterly tax provision process.

Once the tax provision has been completed, a "close meeting" is recommended to ensure company internal controls have been met. At the close meeting, the adviser should review provision conclusions with management, confirm key business/accounting matters have been appropriately addressed and ensure management understands key technical issues to facilitate internal control signoff. A similar technical meeting with the external audit team also can greatly facilitate the timeliness of its review.

4. PERFECT THE CORE TAX PROVISION MODEL

It is difficult to establish an efficient quarterly tax provision process without an exceptional tax provision model. Whether this is achieved using third-party software or an internally developed spreadsheet, the supporting workpapers should in-

corporate all elements necessary to facilitate company and auditor review, thereby decreasing review time and fostering a smooth audit.

At a minimum, the tax provision workpapers should include the key features in Exhibit 3.

All workpaper support must be pertinent to the reviewers, as well as clear and understandable without requiring oral explanations. Critical to achieving this is a detailed and comprehensive memorandum prepared at the end of each financial reporting period. The memorandum should meet internal control requirements as well as provide detailed analyses of critical aspects of the tax provision, general analysis of the current-period tax provision, effective tax rate, deferred inventory, ASC Subtopic 740-10 accounting for uncertainties, stock-based compensation and movement in tax accounts.

Constant communication is critical throughout the process. Communication between key financial personnel and the external audit team should continue throughout the financial reporting period, from the initial kickoff meeting to collaboration during the tax provision preparation process and final review of the reporting package and internal control signoff.

5. ADDRESS IPO-SPECIFIC TAX ISSUES

For many private companies, going public triggers tax issues that could significantly affect the company. Such issues should be evaluated prior to beginning the IPO process to allow sufficient time to fully understand and account for them.

Some common IPO-specific tax issues include those in Exhibit 4.

6. IMPLEMENT CASH SAVINGS AND ETR REDUCTION STRATEGIES

Private companies tend to be most concerned with cash savings opportunities. However, once a company goes public, effective tax rate (ETR) reduction strategies as well as cash savings opportunities

Exhibit 4 IPO Tax Issues

Issue	Potential Impacts
IRC §§ 382 and 383 tax attribute limitations	An IPO may result in a "change of control" triggering tax attribute limitations of sections 382 and 383. Therefore, a company considering going public should evaluate the impact of such a change of control on its use of tax attributes.
Valuation allowance	A private company may anticipate using a portion of IPO proceeds to pay off debt. Upon consummation of the IPO, the company should reassess its tax position, considering the reduction in interest deductions. This increase in future taxable income may result in the release of valuation allowance against the company's deferred tax assets.
IRC § 409A—"cheap stock"	A private company that recently issued stock awards with a deemed fair market value below that of the anticipated public offering share price will need to evaluate the impacts of (1) ASC Topic 718, <i>Stock Compensation</i>, which includes rules for share-based compensation accounting, (2) the potential for disqualifying incentive stock option treatment and (3) potential section 409A issues. Even though the company may have believed it was issuing options with a strike price at the fair market value of the stock on the grant date, the company may determine (with hindsight based on the expected IPO price) that the strike price was too low. This can create a book accounting charge and tax issues.
Tax laws applicable only to public companies	Such tax laws can have a significant impact on a pre-IPO company's tax liability and should be evaluated before going public. For example, IRC § 162(m), which limits the corporate tax deduction for non-"performance-based" compensation paid to top executives of publicly held corporations to no more than \$1 million per executive per year, applies only to publicly traded companies.

become important, since SEC filings require ETR reconciliation disclosures, making them open to public scrutiny.

Private companies should consider implementing ETR reduction strategies well before going public, as such strategies may result in short-term tax rate volatility, with the beneficial ETR impacts enjoyed over a longer term. For example, optimizing a company's global structure via transfers of intellectual property can reduce a company's ETR, but these benefits may not be experienced for several years. A private company that implements such a structure pre-IPO will be better positioned to enjoy a reduced (and more stable publicly

disclosed) ETR once it goes public.

7. ALIGN FOOTNOTE DISCLOSURE WITH PUBLIC COMPANY REQUIREMENTS

In connection with their interim tax provision preparation, private companies anticipating an IPO should align their footnote disclosures with those required by public companies. Although private company year-end footnote disclosures are similar to those of public companies, there are some specific differences. For example, ASC Subtopic 740-10 disclosures are broader for public companies, requiring a quarterly tabular reconciliation

of unrecognized tax benefits, as well as disclosure of whether those unrecognized tax benefits, if recognized, would impact the company's ETR.

Public companies are required to disclose in their footnotes an ETR reconciliation, which private companies are not required to disclose. Such additional disclosures should be incorporated into a private company's footnotes quarterly prior to seeking an IPO.

LAYING THE GROUNDWORK

Once market conditions allow a resumption of IPO activity, more private companies will likely seek public status. And as they do, the temptation to move quickly toward this result may overshadow the necessary pre-IPO management of tax accounting. Due to the complexities, time constraints and significantly heightened public and regulatory scrutiny that a public company faces, it is important that a private company begin acting public with respect to its tax accounting management well in advance of an IPO. ♦

AICPA RESOURCES

Publication

■ *The AICPA Audit Committee Toolkit: Public Companies* (#991006)

CPE self-study

■ *Public Company Update: SEC, PCAOB and Other AICPA Developments* (#731887)

For more information or to make a purchase, go to cpa2biz.com or call the Institute at 888-777-7077.

The Tax Adviser and Tax Section

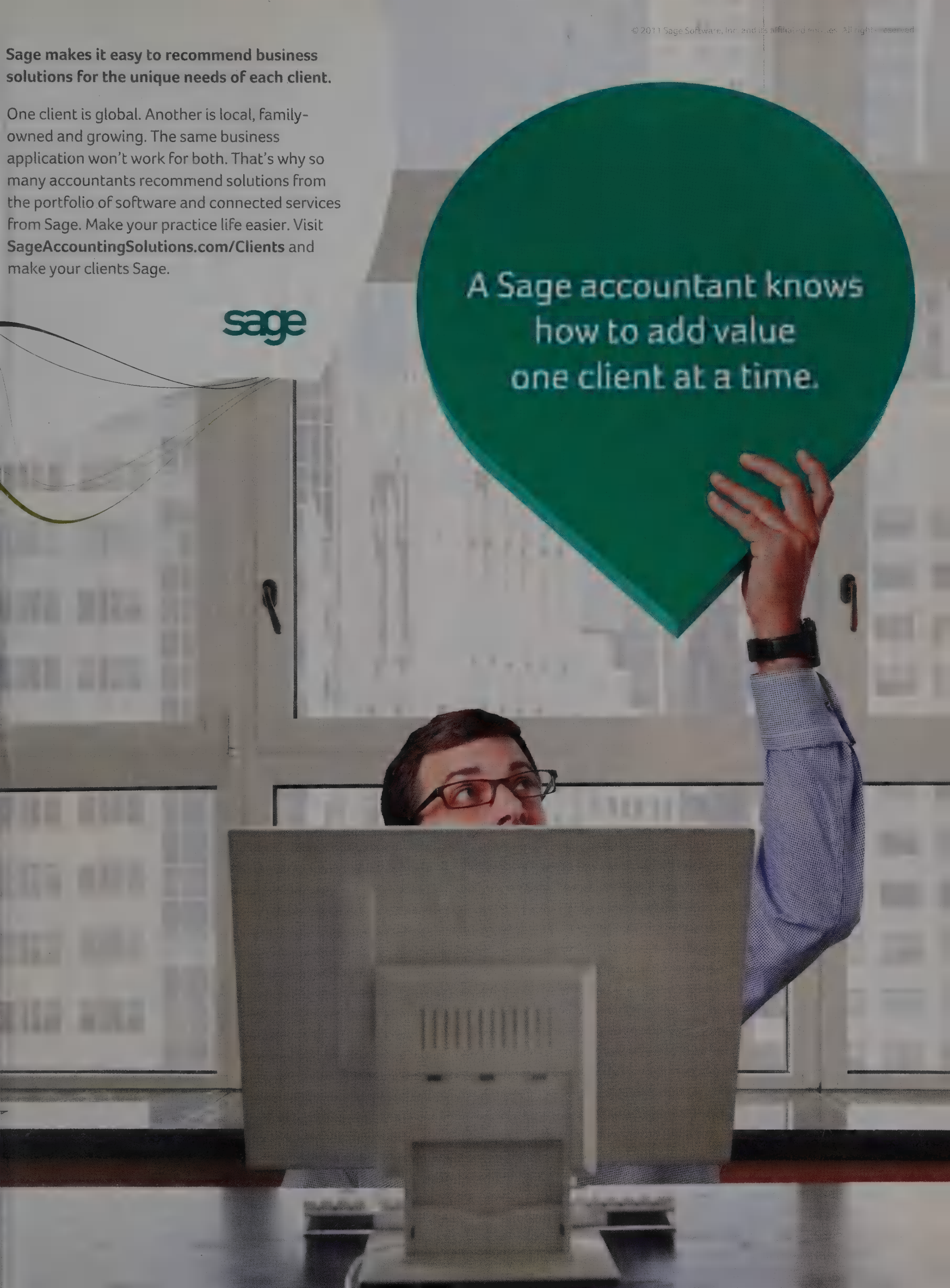
The Tax Adviser is available at a reduced subscription price to members of the Tax Section, which provides tools, technologies and peer interaction to CPAs with tax practices. More than 23,000 CPAs are Tax Section members. The Section keeps members up to date on tax legislative and regulatory developments. Visit the Tax Center at aicpa.org/tax. The current issue of *The Tax Adviser* is available at aicpa.org/pubs/taxadv.

Sage makes it easy to recommend business solutions for the unique needs of each client.

One client is global. Another is local, family-owned and growing. The same business application won't work for both. That's why so many accountants recommend solutions from the portfolio of software and connected services from Sage. Make your practice life easier. Visit SageAccountingSolutions.com/Clients and make your clients Sage.

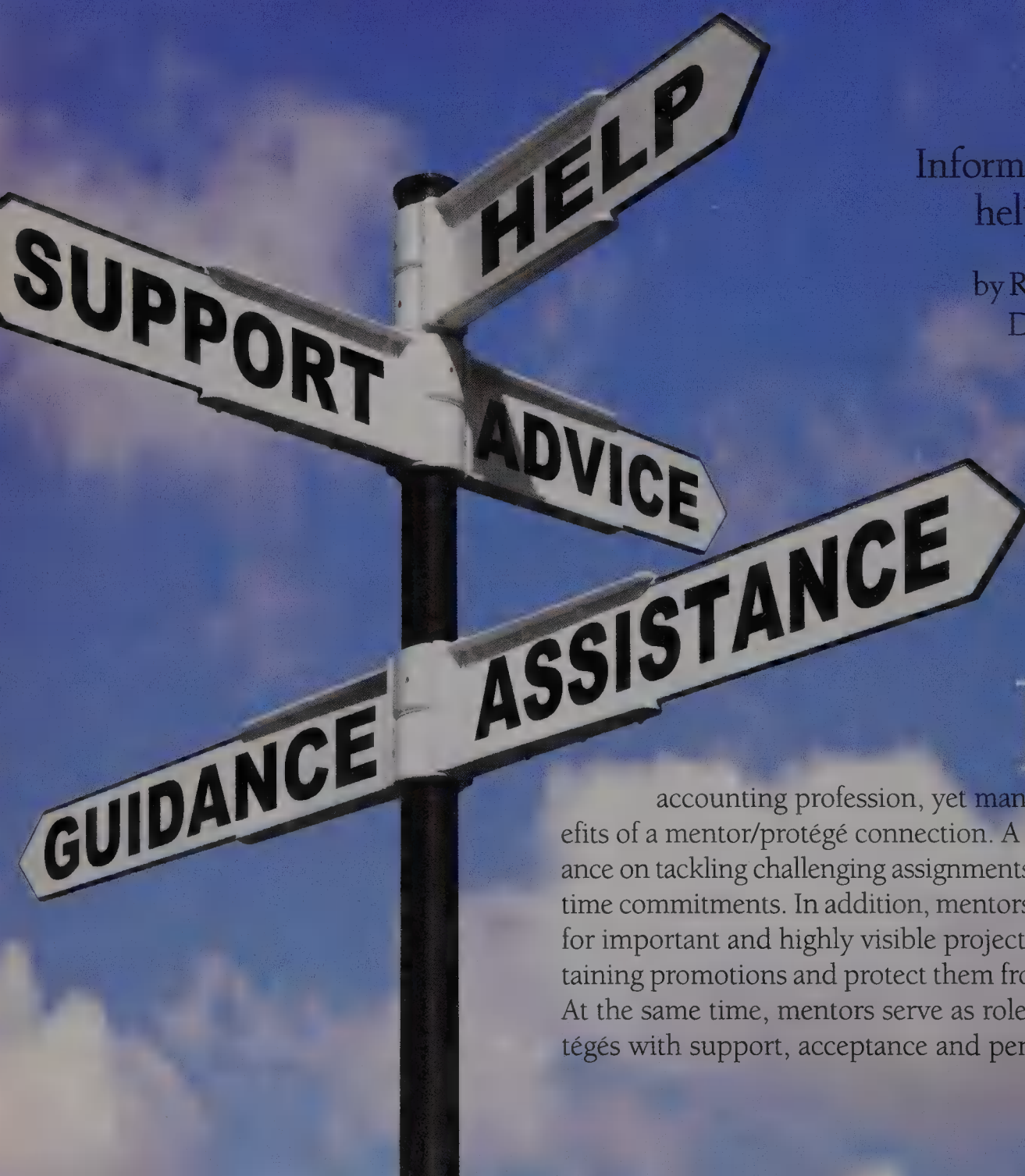


A Sage accountant knows
how to add value
one client at a time.



Eight Ways to Expand Your

Mentoring Network



Informal relationships can help at all career levels.

by Ralph E. Viator, Ph.D., and
Derek Dalton, CPA, Ph.D.

Mentoring relationships are critical for success in the accounting profession, yet many CPAs overlook the benefits of a mentor/protégé connection. A mentor can provide guidance on tackling challenging assignments or insights into managing time commitments. In addition, mentors can recommend protégés for important and highly visible projects, sponsor protégés in obtaining promotions and protect them from organizational politics. At the same time, mentors serve as role models and provide protégés with support, acceptance and personal counseling.

Many organizations facilitate the mentoring process by formally matching potential mentors with potential protégés. In fact, larger firms use highly structured formal programs to ensure that all employees have access to mentoring relationships. However, formally assigned mentoring relationships often provide limited benefits. Sometimes formally assigned mentors perform the duty as one more item on a "to-do list." True mentoring requires time, effort, interest in the protégé and a willingness to give of oneself.

If your firm does not provide a formal mentoring program, or if your formally assigned mentor does not adequately support your career development or is unable to serve as a true confidant, the following eight suggestions can help accountants at all career stages expand their mentoring network and enjoy the benefits of successful mentoring relationships.

1. MULTIPLE MENTORS

A single mentor might not provide all of the support you need. In fact, many professionals find that having more than one mentor is very productive. For example, a junior-level female accountant might rely on a senior-level male manager to guide her in developing financial reporting expertise. At the same time, she might discuss more personal issues, such as work/family concerns, with a senior-level female manager from a different functional area. In a similar vein, a junior-level accountant might have a mentor who is

one level ahead in the organizational hierarchy (that is, a step-ahead mentor) and another mentor who is at a more-senior level. Many professionals find that step-ahead mentors are better at providing social support for challenges, while more-senior personnel are better at providing career support.

2. DON'T WAIT—INITIATE

Potential mentors are generally "people you aspire to be." If someone at your firm or company strikes you as a role model, take advantage of opportunities to socialize with that person. Be willing to discuss

interest in your career development. Share your life story; senior members of the accounting profession come from a variety of backgrounds and appreciate the challenges and adversities that people experience to get where they are. On the other hand, some topics are best discussed later (such as your intention to eventually leave the firm) or not discussed at all (such as gossip). Finally, respect your potential mentors' time.

3. NETWORK—BUT UPWARD

A peer-level social network gives you an opportunity to share your concerns, gain

True mentoring requires time, effort, interest in the protégé and a willingness to give of oneself.

a wide range of topics. Ask potential mentors questions such as: What do you now know that you wish someone had told you when you started in the profession? What obstacles did you have to overcome to get where you are today? How did you obtain important assignments within the firm or company? What new skills did you acquire along the way that helped facilitate your career development?

When building relationships with potential mentors, try to be transparent, yet reasonably cautious. If you are willing to share some of your concerns, potential mentors are more likely to take an

insight into dealing with different superiors, and develop a core group of business contacts who will progress alongside you. However, networking with managers higher up in the organization offers benefits beyond peer-level social networking. For example, academic studies demonstrate that employees who self-initiate mentoring relationships with higher-ups receive more career support, get promoted sooner, and are generally more satisfied with their job and organizational position. Furthermore, having mentoring relationships with higher-ups in the organization will plug you into important lines of communication

EXECUTIVE SUMMARY

■ **CPA professionals at all stages in their career** can benefit professionally and personally by learning to cultivate mentoring relationships.

■ **A single mentor might not provide all the support you need.** By developing multiple mentoring relationships, CPA professionals can find social

support through step-ahead mentors and career support through more-senior personnel.

■ **Seek out opportunities to initiate relationships** with potential mentors or role models. For example, set a goal to become more acquainted with higher-ranking managers and partners at company events or meetings.

■ **Let your mentor, or potential mentor, know the steps you are taking** to become an improved professional. For example, demonstrate your leadership skills by being a team player and leader, avoiding the negatives and displaying a willingness to learn.

Ralph E. Viator (ralph.viator@ttu.edu)

edu) is a professor of accounting at Texas Tech University. **Derek Dalton** (dalton5@clermson.edu) is an assistant professor at Clemson University.

To comment on this article or to suggest an idea for another article, contact Kim Nilsen, executive editor, at knilsen@aicpa.org or 919-402-4048.

regarding organizational goals (for example, "We intend to increase market share and billable hours, even if it means cutting billing rates and profit margins") and organizational changes (for example, "We intend to consolidate operations by closing some underperforming offices"). Therefore, set a goal to become more acquainted with higher-ranking managers and partners; make an effort to get to know them better.

Networking with higher-ranking managers can be intimidating, but you can

challenge instructions that don't make sense or appear to contradict the group's goals. Providing insightful feedback to superiors demonstrates that you are thinking and ready to assume a leadership role.

5. AVOID THE NEGATIVES

Word travels quickly in any organization, whether it's public accounting or industry. If your reputation among your coworkers is less than satisfactory, potential mentors will hear about it. Mentors are looking for people they can trust.

Having mentoring relationships with higher-ups will plug you into important lines of communication regarding organizational goals.

ease your discomfort by trying the following. First, use open-ended questions and listen closely for similar interests or hobbies that you might have. Second, be prepared for networking opportunities by spending a few minutes each morning skimming the local or national news. Third, try to engage in social activities that you enjoy. For instance, if you enjoy playing tennis, you might be more comfortable socializing after playing a match. Finally, attend as many after-hours social functions as possible and make an effort to become "one of the group."

4. BE A TEAM LEADER; WORK WELL WITH OTHERS

One way to be noticed by potential mentors is to demonstrate leadership. Leadership starts by supporting other members in your work group. Finishing your personal assignments is important, but assisting other group members in completing their portion of the project, whether it's an audit engagement or a corporate budget, enables the whole group to succeed. Facilitating group success is an important leadership trait and will earn you recognition from more-senior personnel (or *potential mentors*). Also, carefully evaluate the instructions you receive and, when appropriate, chal-

Demonstrate that you are trustworthy and dependable by avoiding office gossip and keeping confidential information to yourself. Also, avoid arrogant behavior: Let your performance speak for itself without being condescending to others. Remember that team players are the ones with the most potential.

6. MENTORS AND SUPERVISORS

Often, mentor-protégé relationships begin as supervisor-supervisee relationships. Typically, as the supervisor (mentor) moves up, his or her supervisee (protégé) will move up and assume the supervisor's (mentor's) job. However, not all mentoring relationships work this way. Your immediate supervisor *might not* be able to provide the social support and career development support you need. For example, if you have a poor relationship with a challenging supervisor, you might seek mentoring assistance from someone outside of your work group.

Cultivating mentoring relationships with professionals outside of your immediate work group has several benefits. First, if you encounter problems in dealing with your supervisor, an outside mentor can offer advice on what to do based on his or her experiences. Second, by placing your trust in a mentor out-

side of your work group, the confidences you share with your mentor are less likely to generate negative consequences (such as, "You're not supporting our goals and objectives"). Third, a mentor outside of your work group can offer encouragement and support, regardless of your supervisor's personal appraisal of your potential. Finally, a mentor outside of your work group might be in a position to stick up for you if your supervisor submits an unfair or unbalanced evaluation.

7. E-MENTORING

Although we *highly recommend* developing mentoring relationships with employees within your office, e-mentoring is an alternative way to build a network of mentors. E-mentoring offers several advantages, including (1) wider access

AICPA RESOURCES

JofA articles

- "How to Be a Better Mentor," Nov. 2010, page 42
- "Employee Involvement: A New Blueprint for Success," May 2010, page 46
- "Make the Most of Mentoring," Aug. 2008, page 76

Use journalofaccountancy.com to find past articles. In the search box, click "Open Advanced Search" and then search by title.

Publications

- *Owner Development: Human Capital Center Toolbox Series*, tinyurl.com/3c7ajw2
- *Share. Learn. Grow. Mentor.*, tinyurl.com/36s8gfl

Website

- Young CPA Network, aicpa.org/youngcpanetwork

On-Site Training

- Sharing Skills Between Generations (#RM)

Go to aicpalearning.org to access courses. Click on "On-Site Training" then search by "Acronym Index." If you need assistance, please contact a training representative at 800-634-6780 (option 1).

to mentors by eliminating geographical barriers, (2) less intimidating means of communication (easier to converse electronically regardless of position and power), and (3) more neutrality regarding race, gender, age and physical characteristics.

E-mentoring also has potential disadvantages, including (1) increased likelihood of miscommunication when nonverbal cues are absent, (2) slower relationship progression compared to face-to-face relationships (trust and rapport take time to evolve) and (3) increased concern about privacy and confidentiality (e-mentors might be reluctant to discuss certain issues since exchanges are stored electronically). However, perhaps the most significant deficiency in e-mentoring is the absence of role modeling (you would be unable to observe the e-mentor on a day-to-day basis). Aside from these limitations, e-mentoring can be a useful

option when opportunities for in-office mentoring relationships are limited.

8. BE WILLING TO LEARN

Technical ability is important in the accounting profession, but your enthusiasm for acquiring new skills is just as important. You can demonstrate your willingness to learn by asking potential mentors for challenging new tasks, especially if you feel stuck completing well-learned tasks. For example, by volunteering to help research an upcoming complex transaction, you exhibit a willingness to confront new challenges. In a similar fashion, you can demonstrate enthusiasm for learning by actively participating in training programs and webinars, joining industry-based professional groups and engaging in social clubs that provide public-speaking opportunities (especially if you are uncomfortable speaking in public). Then, let potential

mentors know what specific steps you are taking to mature as a professional.

FINAL RECOMMENDATIONS

Without a doubt, having a network of mentors who champion your career, assist you in dealing with complex and demanding work issues, offer friendship and acceptance and serve as role models is a true treasure (true mentors). Just remember, you don't have to wait for mentors to come along. Rather, *beginning today*, you can cultivate a network of mentoring relationships: Identify what you expect to gain from mentoring relationships; carefully consider whether your personality matches with potential mentors' personalities; evaluate potential mentors' experience and availability; then begin the process of networking and connecting. Finally, resolve to be receptive to new ideas, candid feedback and no-nonsense conversations with your network of mentors. ❖

"If I have to remember to run my backup,
it's just not going to happen."

Small business backup just got better!

Introducing Carbonite Business

Automatic online backup you can count on.
At a price that won't break the bank.

CARBONITE
Back it up. Get it back.™

©2011 Carbonite, Inc.

Carbonite Business:

- Backs up automatically and continually
- Requires no extra wires or hardware
- Keeps files encrypted offsite
- Charges one low price — no per-computer fees
- Gets you started quickly with our free Valet Setup service

Plans starting at just
\$229⁰⁰
a year



Scan to
watch a short
video about
Carbonite

Special Offer for Accounting Offices — 2 bonus months with code ACCOUNTING03

Carbonite.com/business or 877-725-8751

*Use code ACCOUNTING03 for 2 bonus months with purchase.

TRY IT FREE!

No credit card required

Intergovernmental Financial Dependency: Why It Matters

The value of providing timely,
relevant information to state and
local governments and their
stakeholders

by Edward Mazur, CPA, and
John Montoro, CPA

Current economic conditions, including job losses, illiquid credit markets, an ailing construction industry and reduced consumer spending, have combined to increase risk and uncertainty not only across all private industries, but also in the public sector, including local governments, states and, perhaps most importantly, the federal government.

AICPA Statement of Position (SOP) 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, and FASB Accounting Standards Codification (ASC) Topic 275, *Risks and Uncertainties*, require certain disclosures about risks and uncertainties relating to the nature of operations, the use and significance of estimates in financial statements and the vulnerability of financial statements to certain concentrations.

With regard to concentrations, SOP 94-6 requires disclosure when information known prior to issuance of the report has met these criteria:

- The concentration exists at the date of the financial statements.
- The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
- It is at least reasonably possible that events that could cause the severe impact to occur will transpire in the near term.

Consider a typical small business scenario with Company A, a manufacturer of an electronic component for automotive air conditioners. Company A has one primary customer that generates more than 60% of its annual sales revenue. An auditor of Company A's financial statements, based on the guidance found in SOP 94-6, would conclude that all criteria have been met to disclose a concentration risk: A concentration of sales revenue exists; the concentration exposes the company to near-term severe impact; and a downturn in automotive sales makes it reasonably possible that such an impact would occur.

Now consider a town with a highway fund that accounts for all road maintenance activity for the town and related debt service. Eighty percent of the town's

revenue for the fund comes from a share of gasoline taxes that are distributed to it from the state. During 2009, in an attempt to balance its own budget, the state cuts the distribution to the town by 90%. The town now faces the prospect of either drastically cutting services to its residents or raising taxes.

In contrast to the Company A example, no concentration disclosure will be found in the town's financial statements. And while a similar scenario to the one described for the town has played out in thousands of state and local governments over the past couple of years, it is difficult

As financial professionals, it is incumbent upon us to see through the sound bites and political posturing and gain an understanding of the facts.

in most cases to assess the extent of intergovernmental financial dependency. This lack of transparency occurs despite the fact that federal funds flowing to state and local governments and state funds flowing to local governments account for a substantial percentage of many of these governments' budgets. The reason for this lack of disclosure may rest with the belief that intergovernmental revenues are stable and that the risk of events negatively impacting these revenues in the near term is considered low.

That theory no longer holds true. The 2008 economic crisis, subsequent recession, 2011 debt ceiling debate and pending legislative actions to further reduce federal deficit spending have taught us that the fiscal sustainability of all three levels of government—federal, state and local—is no longer a given if spending continues

on its current course. We all need to become better educated on the fiscal strengths and weaknesses that contribute to the economic sustainability of our governmental units.

With access to relevant, timely and comparable information on intergovernmental financial dependency, elected leaders of state and local governments will be able to plan in advance for enacted and anticipated shifts in federal funding; proactively address the concerns of rating agencies over potential impacts on fiscal capacity due to the risks of changes in direct and indirect intergovernmental flows; communicate to residents and bondholders with greater transparency; and contribute shared leadership to effectively resolving the deficit spending and debt level problems of the federal government.

As financial professionals, it is incumbent upon us to see through the sound bites and political posturing and gain an understanding of the facts. And, as it turns

out, there is plenty of reliable data out there. Let's start with the "800-pound gorilla" of the public sector—the federal government.

UNDERSTANDING THE NUMBERS

Weighing in at 233 pages, the *2010 Financial Report of the U.S. Government* (tinyurl.com/3f9flpl) is not for the faint of heart. That said, as with the reports of state and local governments, there is a Management's Discussion and Analysis (MD&A) section that covers all of the most essential information on the financial condition of our federal government—and it runs 26 pages. Given the enormous complexity of the federal government and the diverse range of services it provides to citizens, it is tough to determine a "corporate style" bottom line. However, there is a

"bottom line" of sorts, and it is clearly spelled out in the *2010 Financial Report*, which says, "The projections in this Report indicate that the trajectory of current policy is not sustainable."

Exhibit 1, extracted from the *2010 Financial Report*, illustrates the historical and current projections for federal spending and the huge chasm that is growing between total receipts and total spending because of the growth of noninterest spending and net interest. It is important to note that, under current law, only "discretionary spending" can be changed through normal budgetary mechanisms. Discretionary spending includes defense and just about all other federal spending that affects citizens in their daily lives, including road construction, college grants and loans,

health research funds, K-12 education and homeland security.

The remaining expenditures—including Medicare, Medicaid and Social Security—are labeled "mandatory expenditures." This spending, in effect, is on autopilot unless benefits are fundamentally changed by Congress and approved by the president. The congressional "super committee," formed as part of Washington's deal on the debt limit in August, was authorized, when it meets this fall, to begin to tackle unsustainable spending in entitlement programs, as well as reductions in discretionary spending.

THE FEDERAL DEBT BURDEN

With the federal government spending more than its revenues in all but a few of

the past 40 years, it has built up a substantial debt. The balance of publicly held debt as of Sept. 30, 2010, was \$9.06 trillion, or 62% of annual U.S. gross domestic product (GDP). Certain economists believe that, when viewed in relation to GDP, a debt level of 62% is not that bad, since it's below the approximate 109%-of-GDP level built up by the end of World War II. Before breathing a sigh of relief, however, one must remember the alarming trends illustrated by Exhibit 1.

The MD&A section of the *2010 Financial Report* states that "(i)f current policies are kept in place indefinitely, the [publicly held debt-to-GDP] ratio is projected to exceed 350% in 2085 and to rise continuously thereafter." The sobering reality is that, depending on how all of the federal government's

Exhibit 1 Historical and Projected Spending, Receipts, 1980–2085



Source: U.S. Treasury Department, *2010 Financial Report of the U.S. Government*, Chart 2, "Historical and Current Policy Projections for Total Spending, Net Interest, Non-interest Spending, and Total Receipts, 1980–2085," tinyurl.com/3f9flpl.

liabilities and other financial obligations are grouped, the United States has already reached the 350%-of-GDP mark.

Exhibit 2 is an analysis based on data extracted from the 2010 *Financial Report*. It illustrates what happens when you lump

together all of the federal government's liabilities as they appear on its balance sheet, including intragovernmental borrowing from the Social Security and Medicare "trust funds," and combine them with the present value of all future benefit payments to those current and future participants in Social Security and Medicare. As shown, these liabilities and other financial obligations total \$51.8 trillion, which is 351% of 2010 GDP. In the end, or until these other promises are altered by law, intragovernmental debt and social services obligations will have to be addressed by the same productive capacity of the nation, as will the repayment of publicly held debt—which makes a case for why these other debts and obligations also should be measured against the GDP yardstick.

Exhibit 2 Federal Liabilities and Social Insurance Obligations

	\$ Billions	
	2010	2009
Federal Liabilities:		
Publicly held debt	\$9,060	\$7,583
Federal employee and veterans' benefits	5,720	5,284
Other	1,576	1,257
Intragovernmental Debt (owed to Social Security, Medicare and other trust funds)	4,577	4,391
Federal Social Insurance Obligations:		
Social Security	7,947	7,677
Medicare (Parts A, B & D)	22,813	38,107
Other	97	94
Total liabilities, intragovernmental debt and social insurance obligations	\$51,790	\$64,393
Current-Dollar GDP		
(for 3rd quarter 2010, 4th quarter 2009)	\$14,750	\$14,119
Liabilities and obligations as a % of GDP	351%	456%

Source: U.S. Treasury Department, 2010 *Financial Report of the U.S. Government*, tinyurl.com/3f9flpl, and Bureau of Economic Analysis.

TRICKLE-DOWN EFFECTS

Prior to the mid-1960s, the three levels of government—federal, state and local—generally tended their own gardens. The expansion of intergovernmental funding since that time has, however, dramatically altered that model. Using the published reports of state and local governments, the data resources of the U.S. Census Bureau and Bureau of Economic Analysis, and statistical reports of the U.S. Defense Department, the General Services Administration

EXECUTIVE SUMMARY

■ **With major cutbacks in federal spending looming**, more attention needs to be paid to the financial interdependency of federal, state and local governments and the impact of potential federal cuts at the state and local levels.

■ **The percentage of total state revenue sourced directly from the federal government averages 39%**, based on a compilation of the 2009 audited financial reports of 47 states. Local governments also are highly dependent on federal and state assistance.

■ **Very few state and local governments currently disclose and discuss** the concentration of

intergovernmental revenues for their entire entity within their annual reports.

■ **The challenge of CPAs is to help government clients** better recognize the buildup of risk associated with intergovernmental financial dependency within their financial planning and reporting.

■ **AICPA Statement of Position (SOP) 94-6, Disclosure of Certain Significant Risks and Uncertainties**, can be a particularly valuable tool for assessing and disclosing intergovernmental financial risks.

■ **GASB intends to publish a Preliminary Views document in**

the fall of this year that sets forth the board's thinking on the disclosure of long-term fiscal sustainability and intergovernmental service interdependency issues by state and local governments.

■ **Elements of guidance within established GAAP** can be applied in developing potential disclosures relating to current and historical intergovernmental financial dependency and related risks.

Edward Mazur (edward.mazur@cliftoncpa.com) is a senior adviser for public-sector services with Clifton Gunderson LLP; and **John Montoro** (jmontoro@cbh.com) is a

partner in the Richmond, Va., office of Cherry, Bekaert & Holland LLP. **Taylor Powell** (taylor.powell@cliftoncpa.com), an associate in the Federal Government Assurance practice of Clifton Gunderson LLP, provided research assistance in the preparation of this article. A version of this article originally appeared in the March-April edition of *Disclosures* magazine, published by the Virginia Society of CPAs.

To comment on this article or to suggest an idea for another article, contact Kim Nilsen, executive editor, at knilsen@aicpa.org or 919-402-4048.

Exhibit 3 Key Dependency Measures for Selected States, 2009

Key Dependency Measurement	Virginia	Colorado	Pennsylvania	Illinois
Direct federal revenues to state (billions)	\$10.8	\$8.5	\$25.8	\$31.9
Percentage of total state revenues—all sources	26.9%	38.8%	39.0%	48.9%
Direct federal grants to local governments (billions, 2008)	\$1.1	\$0.8	\$3.1	\$3.1
Federal purchases from state businesses (billions)	\$54.0	\$9.3	\$18.7	\$10.3
Federal payments to individuals—wages, pensions, Social Security, Medicare (billions)	\$58.9	\$26.4	\$87.0	\$69.8
Total direct and indirect federal flows (billions)	\$124.8	\$45.0	\$134.6	\$115.1
Real GDP by state (inflation adjusted to 2005, in billions)	\$370.0	\$231.8	\$491.0	\$570.3
Total federal flows as % of state's GDP	33.6%	19.4%	27.4%	20.2%

Source: U.S. Census Bureau, *State and Local Government Finance Summary Report, Consolidated Federal Funds Report and Schedule of Expenditure of Federal Awards*; the comprehensive annual financial reports for Virginia, Colorado, Pennsylvania and Illinois; and Bureau of Economic Analysis regional economic data.

and the U.S. Treasury Department, it is possible to determine key measures of intergovernmental financial dependency as shown in Exhibit 3.

Based on a compilation from the 2009 audited financial reports of 47 states, the percentage of total state revenue that comes directly from the federal government averages 39%. As illustrated in Exhibit 3, federal funds account for between 27% and 49% of the total revenues of Virginia, Colorado, Pennsylvania and Illinois. The economies of these four states also are affected by federal funds flowing directly to their local governments, billions of dollars in federal purchases from businesses

located in the states, and payments made by the federal government directly to their residents for salaries and wages, pension benefits, Social Security and Medicare coverage. Exhibit 3 illustrates how these total direct and indirect federal flows range from 19% of real GDP for Colorado to 34% of real GDP for Virginia. Exhibit 4 also illustrates the indirect economic impact of the federal government associated with its ownership or lease of millions of square feet of buildings as well as the presence of military facilities.

Similar measures of intergovernmental financial dependency can be obtained for local governments. For example, in Vir-

ginia, direct federal and state assistance as a percentage of total locality revenues was 25% for the cities of Virginia Beach and Richmond in 2008–09 and 32% for Henrico County (see Exhibit 5). Indirect federal flows relating to the purchases of goods and services and payments to individual residents amount to hundreds of millions of additional dollars in revenues for those localities.

Besides the impact of federal funding and payments on state and local governments, the businesses and residents of each state and a variety of nonprofit organizations also are affected by these federal flows. Clearly, we are all in the same boat, including the members of the CPA profession who provide vital services to businesses, governments, organizations and individuals throughout each state.

ADDRESSING THE RISKS

Perhaps the biggest risk from intergovernmental financial dependency is ignoring its existence. Ignoring the federal government's fiscal problems has allowed the matter to get much worse, and to make the options for resolution all the more painful. From the CPA's perspective, our challenge is that the clients we serve, most often, do not recognize the buildup of risks within their financial planning and reporting. Very few state and local governments disclose and discuss the concentration of intergovernmental revenues for their entire entity within their annual reports or seek to alert their readers to the risks of such dependency. A continued absence of dependency information will limit the ability of state and local government leaders to take into account the ramifications of such dependency when they seek to institute proactive measures prior to reductions in intergovernmental flows and a possible worsening of the federal debt crisis.

One government that has taken a first step to boost its reporting on intergovernmental dependency is the city of Durham, N.C. The transmittal letter to its annual financial report contains this warning about the risks associated with

Exhibit 4 Other Dependency Measures for Selected States, 2009

Key Dependency Measurement	Virginia	Colorado	Pennsylvania	Illinois
Military facilities	221	88	139	67
Military facilities' present replacement value (billions)	\$44.6	\$13.4	\$11.7	\$12
Military facilities' military and civilian personnel (thousands)	200.6	48.2	46.6	47.6
Federal leased/owned buildings (millions of sq. ft., 2011)	29.1	10.6	10.7	9.8

Source: U.S. Department of Defense, *Base Structure Report*, and General Services Administration's Inventory of Owned and Leased Properties.

intergovernmental financial dependency: "The City depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities."

This disclosure, while generally worded supplemental information, acknowledges the significant nature of intergovernmental financial dependency and alerts the reader to the potential for changes caused by outside forces.

An additional example of how states might approach this issue can be seen in the following illustrative note disclosure based on AICPA SOP 94-6: "During fiscal year ending June 30, 2009, the State received \$25.8 billion from the federal government, which is 39.0% of total

State revenues reported by the primary government and component units for charges for services, capital grants and contributions, operating grants and contributions, and general revenues. Funds flowing from the federal government to the State are subject to changes to federal laws and appropriations. Based on the reported financial position of the federal government, including disclosures concerning fiscal sustainability, it is at least reasonably possible that events will occur in the near term that will significantly af-

fect the flows of federal funds to the State."

If one ties this illustrative disclosure back to the reported disclosures within the 2010 *Financial Report*, it becomes inescapable that states, local governments and virtually all elements of their respective economies are being, and will be, af-

fected by the unsustainable fiscal condition of the federal government.

THE CPA PROFESSION'S INVOLVEMENT

GASB has a project on its agenda called Economic Condition Reporting: Financial Projections (tinyurl.com/3fbjedq). The project's long-term objectives are to identify the information that users require to assess a government's fiscal sustainability, to compare these needs with the information users receive under current standards, and to consider whether guidance should be considered for the remaining information. The project includes consideration of the information necessary for users to assess the risks associated with a government's intergovernmental service interdependencies.

GASB intends to publish a Preliminary Views document this fall that sets forth the board's thinking on how fiscal sustainability and intergovernmental service dependency issues can be disclosed by state and local governments, possibly as required supplemental information.

While future guidance bearing on long-term fiscal sustainability evolves through GASB's due process efforts, CPAs preparing the financial statements of state or local governments and CPAs performing attest functions can respond today to the more present and immediate risks associated with intergovernmental financial dependency. Such a response can be developed by applying established GAAP and profes-

It becomes inescapable that state and local governments are being affected by the unsustainable fiscal condition of the federal government.

sional judgment while considering information such as the reported fiscal condition of governments providing intergovernmental revenues and the degree to which the reporting government is dependent on revenues, procurements or other flows received from these intergovernmental sources.

In this regard, state and local governments have several options for reporting intergovernmental financial dependency, which, it is important to note, do not contradict or conflict with GASB pronouncements. In addition to the two disclosures mentioned above, they could include the following information within their com-

prehensive annual financial reports:

- In MD&A, a “description of currently known facts, decisions or conditions that are expected to have a significant effect on financial position or results of operations,” based on guidance within GASB Statement no. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* (par. 11h), and GASB Statement no. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus* (par. 4).
- A note to the financial statements

providing “information about the concentration of credit risk ... by disclosing ... investments in any one issuer that represent 5% or more of total investments,” including securities issued by the U.S. Treasury Department, based on guidance within GASB Statement no. 40, *Deposit and Investment Risk Disclosures*.

- A note to the financial statements citing “probable” future losses in federal and/or state revenues based on enacted legislation and/or “reasonably possible” future losses in revenues based on the reported financial condition of a government

AICPA RESOURCES

Publications

- *Government Auditing Standards and Circular A-133 Audits—AICPA Audit Guide* (#0127410)
- *Government Auditing Standards and Circular A-133 Developments Audit Risk Alert* (#0224510)
- *State and Local Governmental Developments—Audit Risk Alert* (#0224310)
- *State and Local Governments—Audit and Accounting Guide* (#0126610)

For more information or to place an order, go to cpa2biz.com or call the Institute at 888-777-7077.

On-Site Training

- Applying A-133 to Nonprofit and Governmental Organizations (#EO-OMB)
- Solving Complex Single Audit Issues for Government and Nonprofit Organizations (#EO-SAI)
- The 2011 Revised Yellow Book: Government Auditing Standards (#EO-YB)

Go to aicpalearning.org to access courses. Click on “On-Site Training” then search by “Acronym Index.” If you need assistance, please contact a training representative at 800-634-6780 (option 1).

Archived GAQC Web event

- “What You Need to Know About the 2010 Yellow Book Exposure Draft—Member Web Event,” presented by both GAO staff and AICPA Professional Ethics Division representatives, tinyurl.com/2vsygd

Governmental Audit Quality Center

The Governmental Audit Quality Center (GAQC) is a firm membership center that helps member firms achieve the highest standards in Yellow Book, not-for-profit, HUD or government audits through targeted email alerts, resources and teleconferences. Visit the GAQC at aicpa.org/GAQC.

Exhibit 5 Key Dependency Measures for Select Virginia Localities, 2008–09

Key Dependency Measurement	Henrico County	Richmond	Chesapeake	Virginia Beach
Direct federal revenues to locality (millions)	\$63.0	\$95.0	\$43.5	\$129.0
Direct state assistance to locality (millions)	\$369.8	\$283.9	\$338.1	\$557.2
Federal and state assistance as a % of total locality revenues (all sources)	31.8%	25.3%	28.2%	24.7%
Federal purchases from local jurisdiction (millions)	\$64.0	\$504.5	\$242.1	\$1,181.0
Federal payments to individuals residing in locality (millions)	\$734.3	\$2,510.2	\$1,035.1	\$2,669.8
Total federal and state flows—direct and indirect (millions)	\$1,231.1	\$3,393.6	\$1,658.8	\$4,557.0

Source: U.S. Census Bureau, *Consolidated Federal Funds Report and Schedule of Expenditure of Federal Awards*; Virginia Auditor of Public Accounts, *Comparative Report*; and the comprehensive annual financial reports for Henrico County, Richmond, Chesapeake and Virginia Beach, Va.

providing funding and known activities that are “more than remote” in creating a reduction in intergovernmental revenues, based on guidance within GASB Statement no. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Beyond these specific measures, CPAs who prepare or audit governmental financial reports should seek to understand the conditions reported in the *2010 Financial Report of the United States Government* and the comprehensive annual financial reports of the state or local governments in which they practice.

A SHARED CHALLENGE

The CPA community is not alone in helping to bear the task of addressing the federal government’s sustainability issues. Beyond ensuring that their state and local

government clients are aware of and are properly acknowledging financial dependency on intergovernmental flows, CPAs have an opportunity to develop an understanding of recent recommendations for reforming federal fiscal practices and the possible implications of recent changes to federal law associated with raising the nation’s debt ceiling and curbing deficit spending.

In November and December 2010, three well-regarded, nonpartisan reports were published that sought to identify reasonable ways in which the federal government’s fiscal sustainability could be restored. Notable among these reports were proposals from the National Commission on Fiscal Responsibility and Reform, which issued its formal report, *The Moment of Truth* (tinyurl.com/36o9okt), in early December. The commission’s report tackles all of the major areas of government policy that have the most significant impact on future

deficits, including discretionary spending cuts, tax reform, health care, Social Security and process reform.

A key point in the report is that all spending and revenue matters must be taken into consideration together. Without doing so, the political and other forces beholden to the status quo will inhibit proceeding with the substantive changes necessary to alter the fiscal trajectory of current policies. Although written in December 2010, well before this summer’s congressional debate, this point still holds substantial merit.

In the words of the report: “We must stabilize and then reduce the national debt, or we could spend \$1 trillion a year in interest alone by 2020. There is no easy way out of our debt problem, so everything must be on the table. A sensible, realistic plan requires shared sacrifice—and Washington must lead the way and tighten its belt.” ♦

AICPA® Learning

Do you need to train multiple staff members?

AICPA Learning group sales has everything your team needs

Options include:

- On-Site Training – Focused training at your location for groups of 10+
- CPExpress – 24/7 online Firm Access starting at 10 users
- Conferences – Group discounts for 2 or more
- Web Events – Group discounts for 5 or more
- Publications & Self-Study – Volume discounts

Visit **aicpalearning.org** or call
800.634.6780 (option 1) today



aicpalearning.org

2011 Tax Research Service Survey

Users value breadth of coverage, ease in finding answers.

by Paul Bonner

CPA tax preparers' attitudes toward their tax research services in some respects reflect a universal quandary of the Information Age: They're pleased to have so much material at their fingertips, but despite modern aids such as keyword searching, are still often frustrated in tracking down a particular desired bit of it. They supplement their paid tax research service with a variety of governmental and free online resources. These were among findings in the 2011 annual tax software survey by the *JofA* and *The Tax Adviser*, which besides asking about tax preparation software, for the first time this year also asked CPAs about what tax research service or other resource they primarily use and their thoughts on these products' strengths and weaknesses.

products accounted for another 33% of respondents, and BNA and Intuit represented 8% and 2%, respectively. Except for Intuit, these services were used consistently across firms of all sizes (see Exhibit 1). Respondents who said their primary tax research service provider was CFS, LexisNexis or Tax Analysts together represented a little more than 1% of respondents, so those products are not tabulated separately in this analysis.

OVERALL SATISFACTION, LIKES AND DISLIKES

Practitioners generally said they were well pleased with their tax research service overall, with RIA receiving an average rating of 4 out of 5, followed by BNA (3.9), CCH (3.7) and Intuit (3.4). When asked what they liked best about their tax research service, respondents said they most prized their service's comprehensiveness and breadth of material (see Exhibit 2). Here, users of CCH were most likely to consider this the service's top virtue (51%), followed closely by RIA and BNA at 48% and 47%, respectively (see Exhibit 3). A significant number of users of all products liked quality of content best.

More than 10,000 CPAs answered the survey, which asked them about seven tax research providers. Of the more than 7,700 respondents who said they subscribed to a tax research service, more than half said they used an RIA (Thomson Reuters) product (51%). Users of CCH (Wolters Kluwer)

Tax Preparation Software Survey

For the 2011 survey results about tax preparation software, see the September 2011 *JofA*, page 24.

Intuit users were far less likely to pick comprehensiveness as the chief attraction (15%), but they were much more likely than users of the other services to be drawn by its price. Thirty percent of Intuit users ranked that aspect highest, followed by 9% of CCH users; 7% of BNA users; and 5% of RIA users. Intuit users also were more likely than others to say its integration with other software was its strongest point (17% versus between 2% and 3% for the other three). When we asked what feature about their tax preparation software respondents liked best, users of UltraTax CS (a Thomson Reuters product) were the ones most likely (4.7%) to say that integration with other software was what they liked best about their tax research service. Lacerte, an Intuit product, was second at 2.5%; and ProSystem fx (a CCH product) came in at 2%.

Users of Intuit's research service were somewhat more likely to rank ease of finding answers as its top quality (19%). RIA was a close second in ease of finding

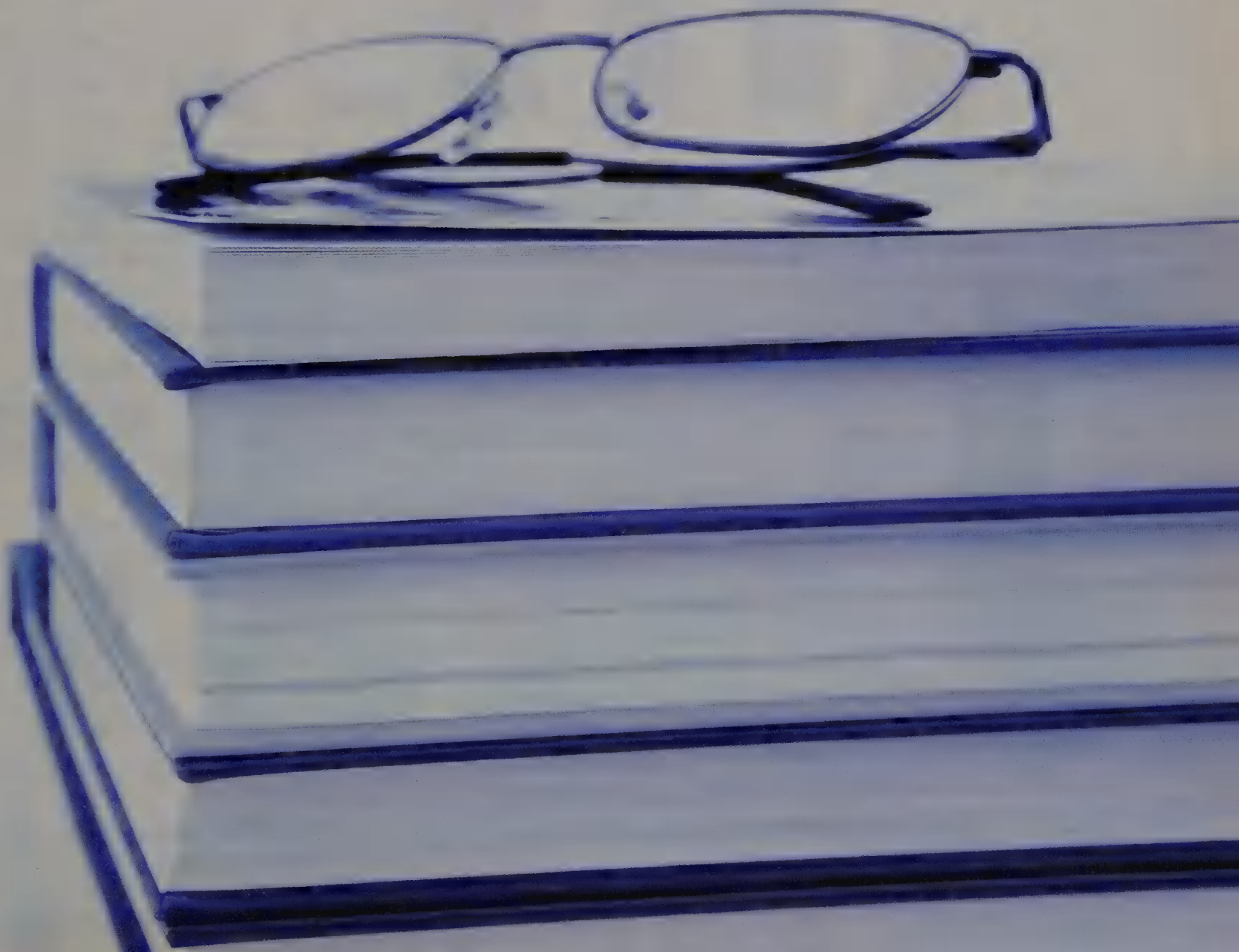
answers, with 17% of users saying that was its best feature. Only relatively few users said having a variety of content delivery options and news coverage were

Free Tax Research Sites: Questions to Ask

With the explosion of information on the Internet and the rise of search engines such as Google that make finding that information possible, many tax practitioners are relying on government or other free sites to get tax information, in addition to or instead of subscription research services. Practitioners should remember that not all information on the Internet is accurate or reliable and should ask the following questions when evaluating any tax information site:

- Is the information current? How up to date is it?
- Who posted the information? How reliable are they?
- How comprehensive is the information? What's missing?
- Are explanations provided? How good are they?

Free and government sites can provide a wealth of information for the researcher who is willing to dig and who bears in mind that these sites have limitations.



what they liked best.

Lack of "ease of finding answers" was the greatest dislike for users of all platforms (see Exhibit 4).

Well over half of CCH users named that attribute their least liked, with the other three vendors not far behind. This is somewhat paradoxical, since a significant percentage of users of all four serv-

ices, including 19% of Intuit users and 17% of RIA users, also named this the attribute they liked best (compare Exhibit 3 and Exhibit 5).

This split indicates that ease of finding answers may be the feature of tax research software that users care most about. Correspondingly, readers indicated they neither particularly liked nor dis-

liked news coverage and content delivery options. Price of the service is the next most-disliked feature across the board.

CONTENT DELIVERY OPTIONS

Since having a variety of content delivery options rated low in both likes and dislikes, users appear satisfied with the on-line access that is their predominant

Exhibit 1 Tax research vendor by firm size

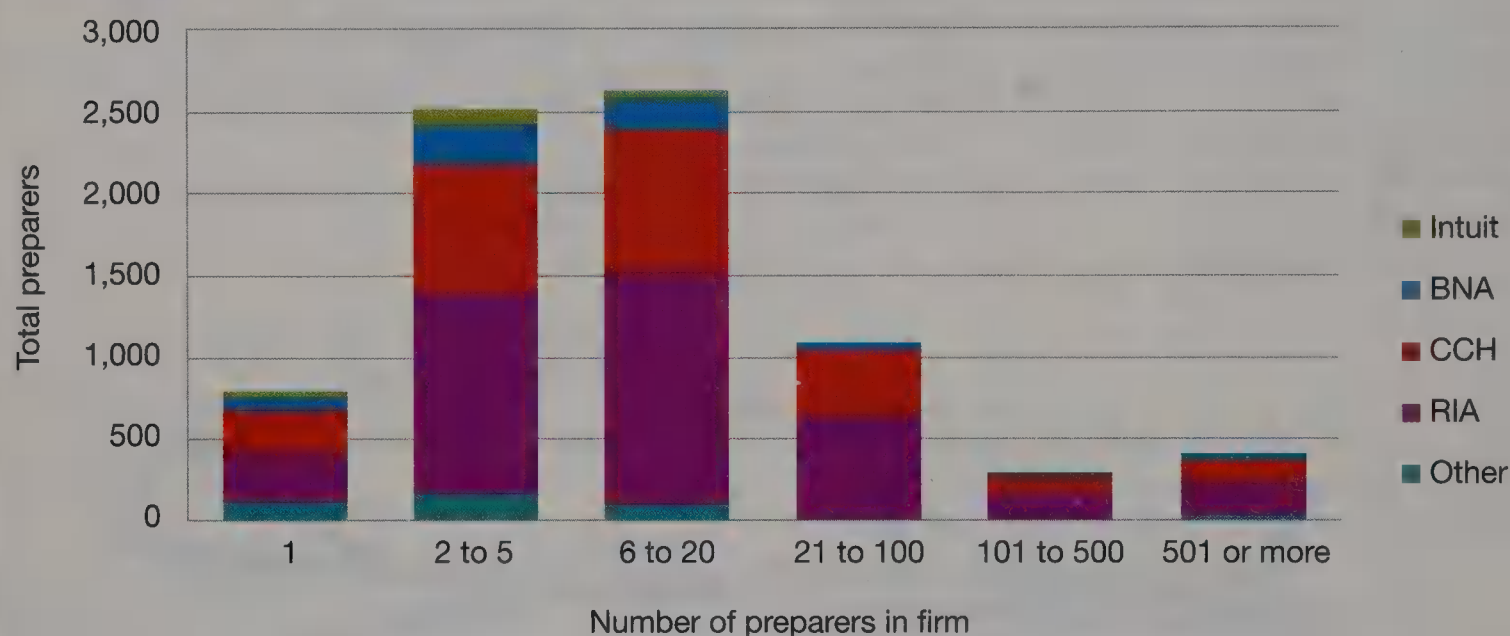
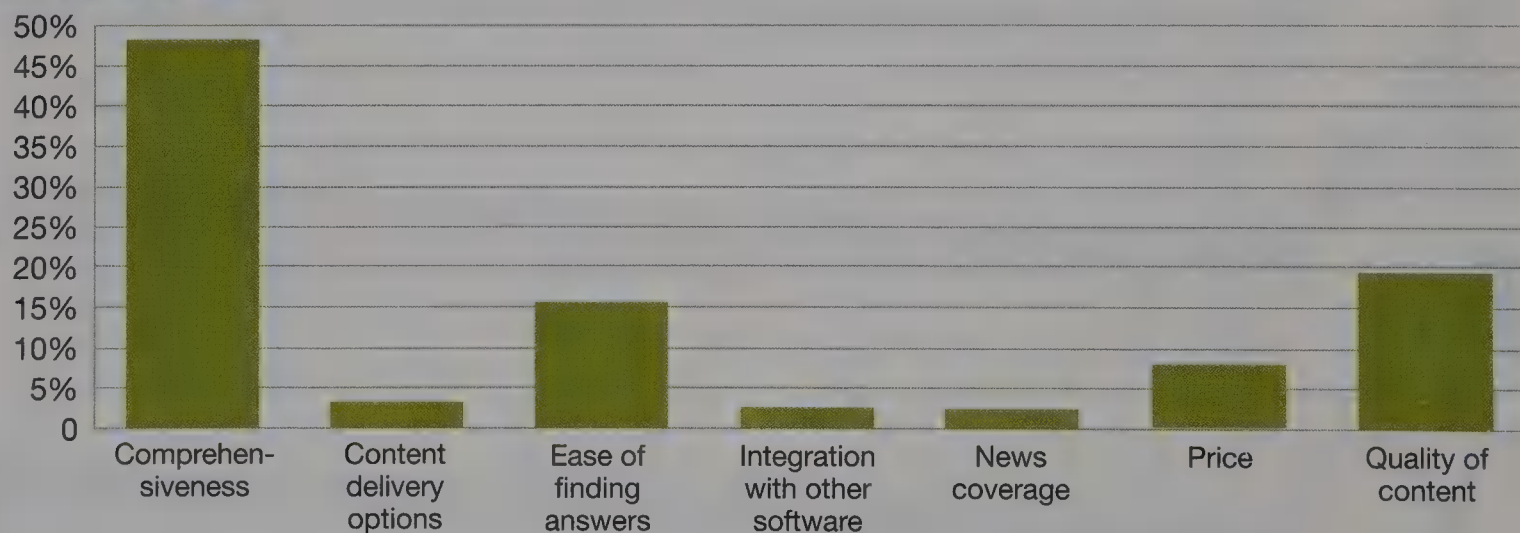


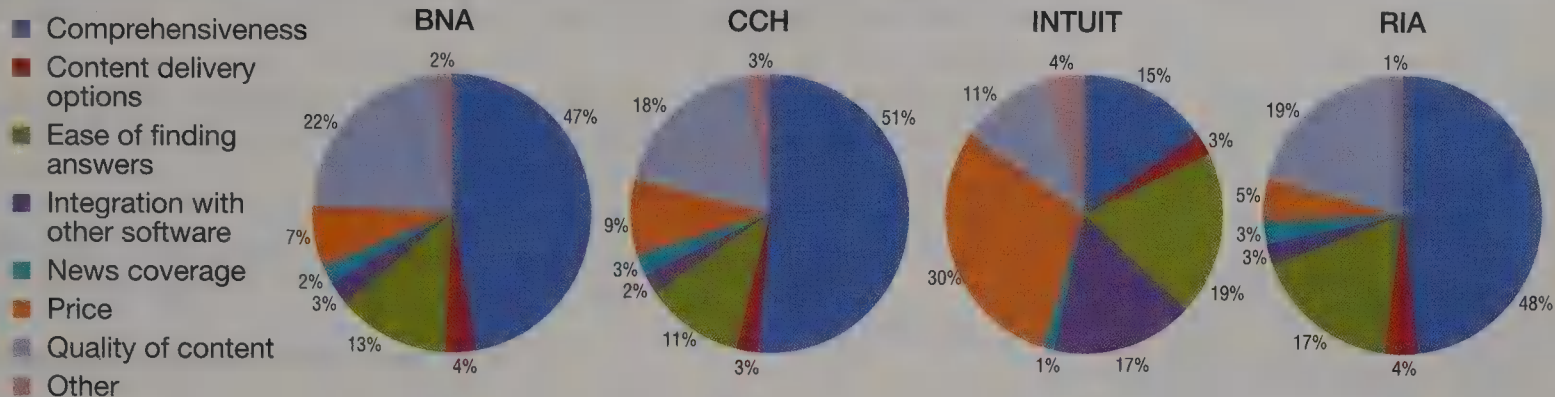
Exhibit 2 What do you like best about your tax research service?



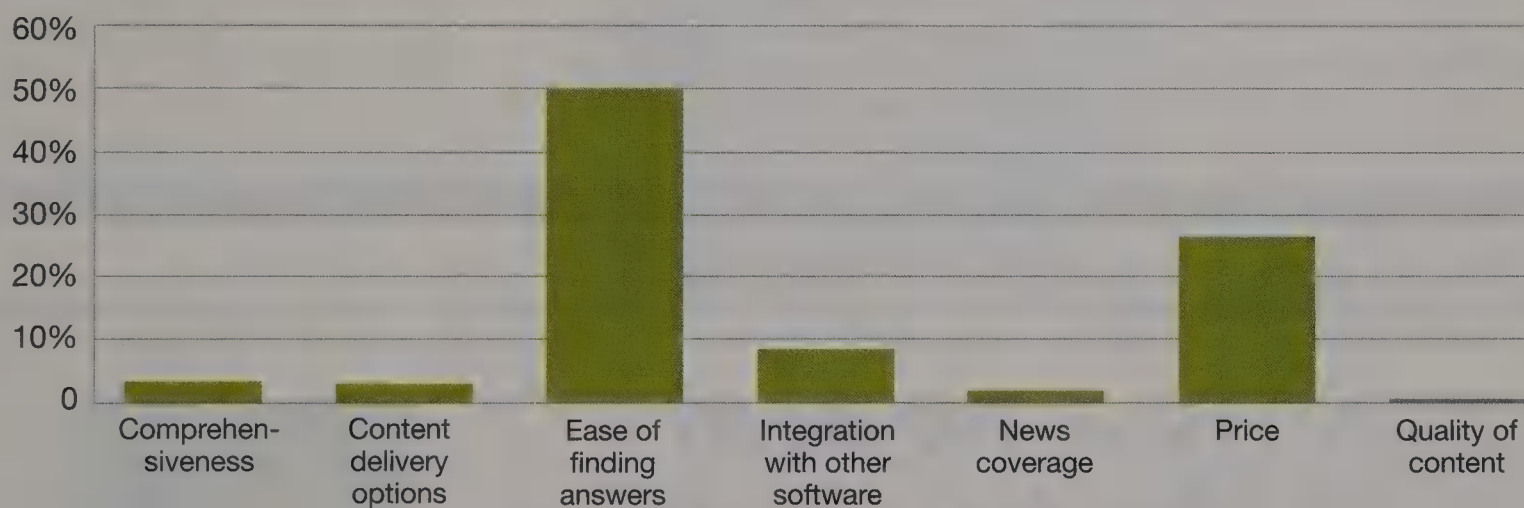
Percentages are of total respondents for four top vendors.

Exhibit 3

What do you like best about your tax research service?
(By vendor)

**Exhibit 4**

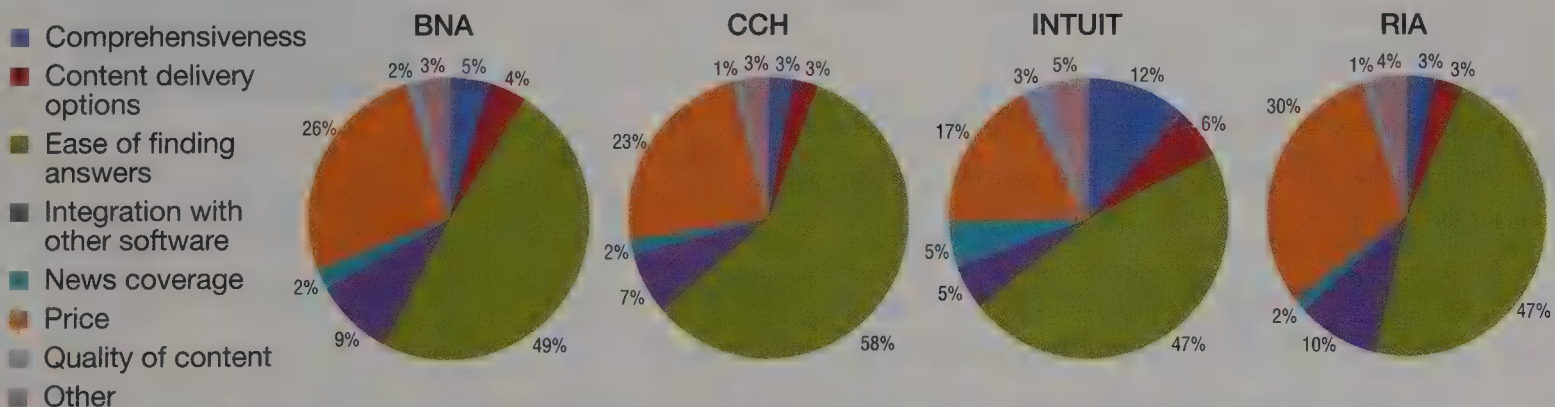
What do you like least about your tax research service?



Percentages are of total respondents for four top vendors.

Exhibit 5

What do you like least about your tax research service?
(By vendor)



method of using the service. Most users (94%) said they receive their research service online, with only 7% saying they receive it in print and 5% on CD. When asked what format they would prefer to use if they had a choice, online still rated high at 89%, with print increasing to 13% and CD rising slightly to 7%. Thus, having materials in a printed version is important to some preparers.

GOVERNMENT OR FREE SERVICES

Nearly all practitioners (97%) said they consult the IRS' website (www.irs.gov), and a large majority (86%) said they refer to state revenue department websites. Sixty-five percent said they use Google or another Internet search engine to perform tax research. We asked about one Internet free site, TaxAlmanac, which 13% of respondents said they use, and allowed respondents to name others they use.

One getting several mentions was Legalbitstream, which provides free, searchable databases of federal tax statutes, regulations, case law and IRS guidance partly on its own site and partly via links to government sites.

Regardless of how they receive tax research services, respondents indicated that ease of finding answers to their tax questions and breadth of material are most important to them, and that news coverage, content delivery options and integration with other software are sec-

ondarily important. As with other products they use, CPAs are mindful of price, and a significant number supplement their paid tax research service with free online resources. ♦

Paul Bonner (pbonner@aicpa.org) is a senior editor—tax for the *JofA*, *The Tax Adviser* and the *AICPA Insiders e-newsletters*. To comment on this article or to suggest an idea for another article, contact him at pbonner@aicpa.org or 919-402-4434.

READ ON >>

Journal of Accountancy.com

For a video interview with Alistair Nevius, editor-in-chief of *The Tax Adviser*, describing the tax preparation portion of the survey, go to tinyurl.com/6k33how.

AICPA RESOURCES

Publications

- *Tax Research Techniques* (#061074)
- *The 2011 Cumulative Tax Guide* (#091036PDF, on-demand)

For more information or to make a purchase, go to cpa2biz.com or call the Institute at 888-777-7077.

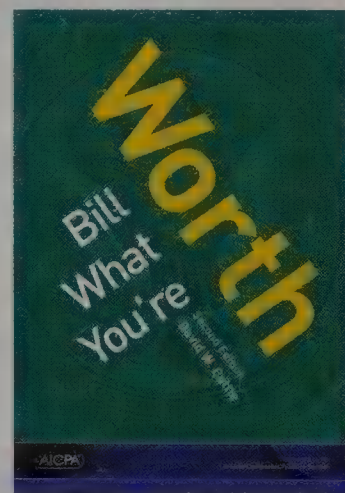


Learn Proven Techniques to Bill What You're Worth!

Pricing your services and billing for them is one of the most important skills of the successful accountant. But how do you know what's competitive? Turn to ***Bill What You're Worth***. This new 2011 edition walks you through pricing methods, shows you how to discuss pricing with clients, and offers clear advice on motivating employees to bill what they're worth. You'll learn:

- Three top reasons accountants do not earn enough
- How to use tools to implement specific value pricing scenarios
- Pricing strategies for a down market

Bill What You're Worth shows how to align your billing rates with the service level you provide to achieve long-term success.



New Edition

Paperback 030561

AICPA Member: \$55.00

Nonmember: \$68.75

Cloud-based **client accounting solutions** won't merely enhance your practice. They'll literally reinvent it.



The more you know about your clients' daily financial picture, the better position you're in to work collaboratively and provide long-term strategic advice. Cloud-based accounting solutions from CPA2Biz help you manage your clients' financial data in real-time, provide higher margin advisory services, build long-term loyalty, and differentiate your firm from others.

Simple, efficient online bill management

Powered by **Bill.com**

Bill.com streamlines and automates your clients' accounts payable and receivable processes with complete security and control. By having greater visibility into your clients' day-to-day finances, you are better able to manage their cash flow and provide strategic guidance.

For more information, visit cpa2biz.com/bill

Cloud-based financial management and accounting application

Powered by **Intacct**

Intacct Accountant Edition is a best-in-class online client accounting solution that delivers financial information to you and your clients in real-time. It enables you to provide customized financial reports, dashboards and KPIs to key firm and client stakeholders. Core modules include General Ledger, A/P, A/R, Cash Management, and more.

For more information, visit cpa2biz.com/intacct

AICPA National Governmental and Not-for-Profit Training Program



October 24-26, 2011 | Disney's Yacht & Beach Club Resort, Lake Buena Vista, FL
Pre-Conference Workshops: October 23

This hands-on, interactive training program puts you face-to-face with standard-setters and industry leaders — providing an unmatched opportunity to learn from the best.

The Sleeter Group Accounting Solutions Conference



November 7-9, 2011 | The Cosmopolitan of Las Vegas, Las Vegas, NV

Attend this Conference and gain essential knowledge from the country's leading expert advisory group while networking with colleagues, industry experts, and hardware and software developers and service suppliers. This annual event is attended by hundreds of accountants, bookkeepers, consultants, and IT professionals, as well as some of the best-known and up-and-coming vendors in the market.

AICPA Controllers Workshop East

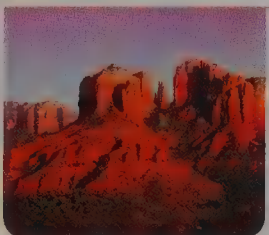


November 10-11, 2011 | Walt Disney World Dolphin, Orlando, FL

Pre- & Post-Conference Workshops: November 9th & November 12th

If you missed the July conference, this is your opportunity to attend the same or similar sessions. The workshop offers practical ideas, professional development, technical knowledge, and innovative solutions from top industry experts. The keynote address will be given by Congresswoman Lynn Jenkins presenting a Legislative Update.

AICPA National Real Estate Conference

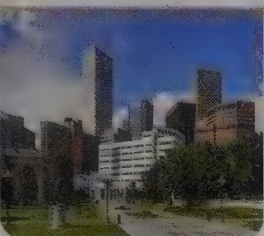


November 10-11, 2011 | The Phoenician, Scottsdale, AZ

Pre-Conference Workshops: November 9th

The industry's premier real estate event was specifically designed to educate you on the newest ideas, technologies, techniques and rules to help you and your clients succeed. Critical updates and issues in accounting, auditing, tax and management are presented in four dynamic learning tracks: Industry, Accounting, Tax, and Emerging Issues.

AICPA National Oil & Gas Conference



November 15-16, 2011 | Westin Denver, Denver, CO

Pre-Conference Workshops: November 14th

Co-developed by the AICPA and PDI, at this intensive two-day conference, you'll hear from an expert group of speakers and interact with other professionals who will look at the industry's major issues from critical regulatory updates on state and federal taxation to governance and environmental legislation.

AICPA National Healthcare Industry Conference



November 17-18, 2011 | The Renaissance Harbor, Baltimore, MD

Pre-Conference Workshops: November 16th

This one-of-a-kind conference features renowned speakers who will share the latest updates and implications of healthcare reform and its impact on business.

AICPA National Construction Industry Conference



December 1-2, 2011 | Bellagio, Las Vegas, NV

Pre-Conference Workshops: November 30th

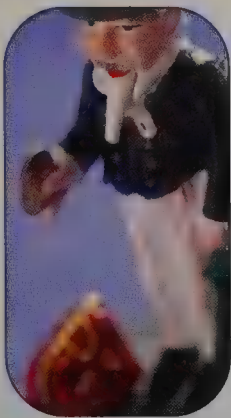
This program will help you develop a deeper understanding of the latest trends, strategies, and best practices that are essential for financial professionals to successfully move forward in this still uncertain economy.

AICPA National Conference on Current SEC and PCAOB Developments



December 5-7, 2011 | Marriott Wardman Park Hotel, Washington, DC, +4 Simulcast Locations

Hear directly from the profession's top regulators who will provide timely information about all the new regulatory issues, and how they will affect audits, reporting and governance for public companies.



TAX PRACTICE CORNER

SE Tax and Sporadic Activity

A common issue for taxpayers and their CPA return preparers is whether an activity for which the taxpayer received compensation during the tax year constitutes self-employment for purposes of self-employment tax. The answer can make a big difference in tax liability, since self-employment tax amounts to 15.3% of net self-employment earnings (13.3% for 2011).

SE tax replaces the Social Security and Medicare taxes paid by employees and is subject to the same \$106,800 ceiling on the Social Security portion. Moreover, taxpayers with SE income may not have had taxes withheld or paid estimated SE or income tax on the amount. An estimated tax underpayment penalty may further increase the taxpayer's bottom-line shock. No doubt every tax preparer has, in such circumstances, heard the question, "How could I owe that much?"

The answer is hard to explain to taxpayers, who might not have thought of that temporary job, honorarium or intern stipend as self-employment. SE tax applies only to net profit (unless it's under \$400) in a tax year, derived from a trade or business carried on by an individual as a sole proprietor or partner of a partnership (IRC § 1402(a), Treas. Reg. § 1.1401-1(c)). Determining whether a taxpayer is engaged in a trade or business depends on all the facts and circumstances in a particular case, and the objective facts speak louder than the taxpayer's statement (*Walter L. Medlin*, TC Memo 2003-224, citing *Engdahl v. Commissioner*, 72 TC 659).

Nonetheless, certain types of activities have been determined not to be a trade or business for purposes of SE tax, such as looking after one's investments, engaging in hobbies or performing a public office. Activities performed as an employee are not self-employment. And while partners and

sole proprietors generally must pay SE tax on the net profits of their trade or business, S corporation shareholders do not pay SE tax on distributions from the corporation.

Carrying on a trade or business involves ongoing efforts, and the activity may be so sporadic as to perhaps escape SE tax. For example, in Revenue Ruling 58-112, an officer of a company was paid a commission by another corporation to negotiate the sale of his company to the corporation. Even though the officer was paid in four equal installments during the year for his services, the IRS ruled the payments were not self-employment income, since the officer had never previously engaged in such a transaction and did not maintain an office or otherwise hold himself out to the public as available for such negotiations. Similarly, as has been noted in an article in *The Tax Adviser*, "Tax Aspects of an Author's First Book" (Oct. 2008, page 694), someone who as a sideline writes only a single book and is not obligated to revise it in the future or write more books is probably not engaged in the trade or business of being an author and is therefore not self-employed (including several U.S. presidents and first ladies who nonetheless paid SE tax on income from sales of their first books).

In other instances, however, activities that might seem sporadic, in the sense that they are engaged in according to no particular schedule, have been held to be self-employment, based primarily on the number of times they recurred during a

tax year. In Revenue Ruling 77-356, a member of Congress received payment for giving speeches, for which there was no pattern to the number of speeches given, the amount of time they

Carrying on a trade or business involves ongoing efforts, and the activity may be so sporadic as to perhaps escape SE tax.

required or remuneration received. During the year in question, the taxpayer made 10 speeches, for which \$1,500 was received. Their frequency indicated "a degree of recurrence, continuity, and availability for speech making," and thus were considered self-employment. On the other hand, a taxpayer who was paid for an "occasional" speech and did not seek such engagements or indicate availability for them was not self-employed (Revenue Ruling 55-431).

Frustratingly perhaps for practitioners, there is no bright line for determining when an activity is sporadic for SE tax purposes. But the more regular, frequent and continual the activities are, the more likely that the taxpayer will be considered to be carrying on a trade or business and subject to SE tax.

By **Paul Bonner**, senior editor-tax. To comment on this article or to suggest an idea for another article, contact him at pbonner@aicpa.org or 919-402-4434.

Limited
Time Offer

Perceived Value = Billable Value

Risk Free. Try Before You Buy.



Lockhart's World Class
Presentation Folders
& Report Covers

Design your Free Presentation Cover with your firm name.

Call 800-966-2709 or visit the **ALL NEW**
www.LockhartAdvantage.com

*Present an image of uncompromising value to your clients
to deliver the "WOW!" and get paid for all you're worth.*

THE LOCKHART GUARANTEE
You risk nothing! 100% unconditional guarantee.

LOCKHART™
Branding Your Image
...of Excellence

www.LockhartAdvantage.com (800) 966-2709

© Lockhart Industries, Inc. All rights reserved.

TaxMatters

Visit journalofaccountancy.com for news updated daily and to sign up for email news alerts on tax and other topics of your choice (under "Link Directory" in the lower-right corner, click "JofA Email Updates"). Also available online: Hyperlinks to sources cited in Tax Matters.

ESTATES

IRS ISSUES GUIDANCE ON CARRYOVER BASIS RULES FOR 2010 DECEDENTS' ESTATES

In early August, the IRS issued guidance on the time and manner for making the election not to have estate tax apply to estates of decedents who died in 2010 (Notice 2011-66). The election must be made by Nov. 15, 2011. The notice also discusses how donors can elect out of automatic allocation of the generation-skipping transfer (GST) tax exemption for direct skips in 2010 and clarifies when 2010 GST tax returns are due.

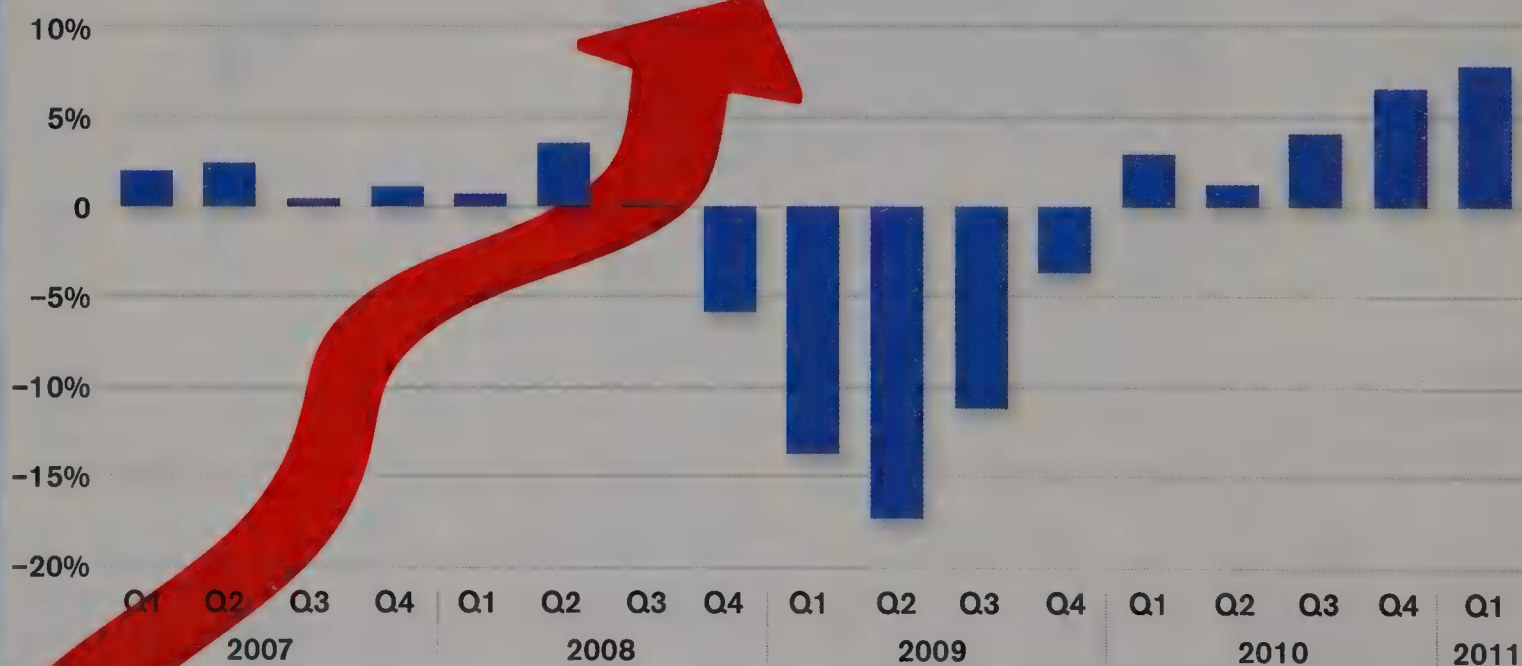
The IRS also provided details on how

executors who elect not to have estate tax apply can allocate increase in basis to the decedents' assets (Revenue Procedure 2011-41).

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (PL 111-312) reinstated the estate tax for 2010 after it had been repealed under the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (PL 107-16). However, the Tax Relief Act allows executors of the estates of decedents who died in 2010 to elect to apply the Code as if the estate tax had not been reinstated. Under this election, no estate tax would be due, but assets in the estate do not receive a step-up in basis to fair market

value (FMV) at the date of death (or alternate valuation date). Instead, heirs' basis in assets they inherit is determined under the modified carryover basis rules in IRC § 1022. Under these rules, an asset's basis is the lesser of the decedent's adjusted basis in the asset or its FMV at the date of death; however, the executor can allocate up to \$1.3 million (plus the amount of the decedent's unused capital loss carryovers, net operating loss carryovers and built-in losses) to increase certain assets' basis to their FMV at death (basis increase) (see "Estate Tax or Carryover Basis?" *JofA*, July 2011, page 28). An additional \$3 million basis increase can be applied to property that passes to a surviving spouse.

States' Tax Revenues Rebound



Year-over-year percentage change in total personal and corporate income taxes and general sales taxes collected by all states, adjusted for inflation.

Source: "Robust Revenue Gains Continue in First Quarter and Early Second Quarter," *State Revenue Report*, The Nelson A. Rockefeller Institute of Government, July 2011, tinyurl.com/6jvhnqf.

Executors can elect to have the provisions of section 1022 apply by filing Form 8939, *Allocation of Increase in Basis for Property Acquired From a Decedent*, on or before Nov. 15, 2011. The IRS will not grant extensions of time to file Form 8939 and will not accept late-filed forms, except in certain narrowly defined circumstances. The IRS said in a news release (IR-2011-83) that it planned to release a final version of Form 8939 by early fall 2011.

The notice explains that executors must allocate the basis increase on Form 8939. The executor must report on Form 8939 all property acquired from the decedent (except cash and rights to receive income in respect of a decedent (IRD)). The executor must also provide a statement to each recipient of property reported on Form 8939, within 30 days of filing Form 8939, setting forth information required under section 6018(e).

Revenue Procedure 2011-41 explains in detail how the allocation of the basis increase works and to which assets it applies. It also discusses how to determine fair market value, gives special rules for community property states and explains the interaction of section 1022 with other tax provisions.

If the executor of the estate of a decedent who died in 2010 makes the section 1022 election, the executor will allocate the decedent's available GST exemption by filing Schedule R with Form 8939. The notice provides two ways for the donor to elect out of the automatic allocation of the GST exemption to outright gifts to grandchildren or more remote descendants made in 2010.

The due date for filing a return reporting a direct skip, taxable distribution or taxable termination that occurred during 2010 (before Dec. 17, 2010) was Sept. 19, 2011, except in the case of Form 8939, Schedule R, which is due Nov. 15, 2011.

INNOCENT SPOUSE RELIEF

IRS RELENTS ON TWO-YEAR LIMIT ON INNOCENT SPOUSE EQUITABLE RELIEF

After winning appeals in three federal cir-

cuit courts of its two-year limit for requesting equitable innocent spouse relief, the IRS said on July 25 it will no longer observe that deadline.

In Notice 2011-70, the IRS said it will now consider taxpayer requests for equitable relief from joint and several liability under IRC § 6015(f) at any time if the limitation period for collection of taxes under section 6502 remains open for the tax years at issue (generally, 10 years after an assessment). If the taxpayer is seeking a refund as part of the request, the limitation period on credits or refunds under section 6511 governs (generally, three years).

In a number of cases, taxpayers have been denied equitable innocent spouse relief solely because the request was not timely. The Tax Court has declared the two-year limit, imposed by Treas. Reg. § 1.6015-5(b)(1), invalid, but the Seventh, Third and, most recently, the Fourth Circuit Courts of Appeals have overruled the Tax Court and upheld the IRS' authority to impose the two-year limit (in, respectively, *Lantz v. Commissioner*, 607 F.3d 479; *Mannella v. Commissioner*, 631 F.3d 115; and *Jones v. Commissioner*, 642 F.3d 459). In April 2011, members of Congress wrote IRS Commissioner Doug Shulman to urge the Service to revise the regulation.

The IRS said it will do so. In the interim, until the regulations are revised and the limit is formally removed, the IRS provided transitional rules for requesting relief or resolving cases currently in litigation.

Requests pending with the IRS. For requests already submitted (normally, by filing Form 8857, *Request for Innocent Spouse Relief*) but not yet ruled upon by the Service, taxpayers should not reapply. The IRS will consider the request even if it was submitted more than two years after the first collection activity was undertaken, if it is within the other applicable limitation periods noted.

Requests denied solely for untimeliness. Taxpayers may reapply for equitable relief if their requests were denied

solely because they made the request more than two years after the first collection activity and the case has not been litigated. If the request involves a claim for refund or credit, the IRS will use the date of the original request for that purpose.

Requests in litigation. For cases currently before a court, the government will "take appropriate action consistent with the position" announced in the notice regarding any issues of timely filing of a request under section 6015(f).

Requests for which litigation is final. If, in a court case that is final, the IRS stipulated that a request for relief under section 6015(f) would have been granted except for the timely submission issue, the IRS will take no further collection activity after July 25, 2011, the effective date of the notice. No refunds or credits are available, however, for previous collections.

Future requests. Requests for equitable relief under section 6015(f) filed after July 25 will be considered consistent with the other limitation periods noted above but without regard to when collection activity began.

DEDUCTIONS AND CREDITS

MEDICAL DEDUCTION ALLOWED FOR IN-HOME PERSONAL CARE

The Tax Court held that payments made to an elderly woman's providers of personal care that she required due to her diminished capacity qualified as long-term-care services and were therefore deductible under IRC § 213(d)(1)(C).

Lillian Baral was diagnosed with dementia by her physician in 2004. After she was hospitalized repeatedly, the physician evaluated her ability to take her required medications and live independently. In 2006, he determined her speech was impaired and that she was confused. She also required supervision and assistance with the activities of daily living and was at risk of falling. For all these reasons, she needed 24-hour-a-day home care services, the physician said. ❖

Baral's brother, David Baral, her attorney-in-fact, hired two caregivers who assisted Lillian Baral with bathing, dressing, trips to doctors, medications and getting in and out of a wheelchair. They also paid for miscellaneous supplies and were later reimbursed. During 2007, David Baral paid the caregivers \$49,580 for their services, plus \$5,566 to reimburse the miscellaneous expenses and \$760 for physicians, none of which was reimbursed by insurance or otherwise.

Lillian Baral's federal income tax return for 2007 was not timely filed, and payment was not made. The Service prepared a substitute for return for 2007 and subsequently issued a statutory notice of deficiency with adjusted gross income (AGI) of \$94,229 and an income tax deficiency of \$17,681, with no deductions or credits other than a personal exemption and standard deduction.

In 2008, Lillian Baral died. Her estate petitioned the Tax Court, first arguing that she was not required to file a return or pay income tax for 2007 because of her dementia. The court granted summary judgment to the IRS on that issue, holding she or her estate was not excused from filing. The court then ruled on the estate's further objection to the government's motion for summary judgment, that Baral was entitled to deductions for medical and long-term care.

IRC § 213 allows a deduction for medical care to the extent expenses exceed 7.5% of AGI. Medical care is defined as including long-term-care services as defined in section 7702B(c)(1) that "are required by a chronically ill individual and are provided pursuant to a plan of care prescribed by a licensed health care practitioner." Chronic illness is defined as an inability (certified within the previous 12 months by a licensed health care practitioner) to perform certain activities of daily living, or "requiring substantial supervision to protect such individual from threats to health and safety due to severe cognitive impairment."

The court agreed with Baral's estate that the amounts paid to the caregivers

for their services were deductible as qualified long-term-care services. Baral was chronically ill, and the care was medically necessary to protect her from threats to her health and safety, as determined by her physician. The court also held the amounts paid for physicians were qualified medical expenses. However, the amounts paid to reimburse the caregivers for miscellaneous expenses were disallowed due to lack of substantiation.

■ *Estate of Lillian Baral v. Commissioner*, 137 TC no. 1

By **Danny A. Pannese**, CPA/ABV/CFE, MST, CVA, CSEP, associate professor of accounting, John F. Welch College of Business, Sacred Heart University, Fairfield, Conn.

IRAs

ROTH RESTRUCTURE "TOO GOOD TO BE TRUE"

The Tax Court held on July 5 that the IRS properly assessed excise tax on a taxpayer's excess contribution to a Roth IRA, since the attempted tax-free conversion of a regular IRA to a Roth IRA lacked economic substance. In addition, the court held that the taxpayer was subject to a penalty for failing to file Form 5329, *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*, since the taxpayer could not show reasonable cause for his failure to file. The court further found that the statute of limitation did not bar the excise tax for three of the years in question, due to the failure to file the form with the tax returns.

If a taxpayer's contribution to an IRA (including a Roth IRA) exceeds the maximum amount allowable, IRC § 4973 imposes an excise tax equal to 6% of the lesser of the excess contribution or the fair value of the IRA account at the end of the year. The tax is imposed each year until the excess contribution and its earnings are removed from the account. A taxpayer who has made an excess contribution is required to file Form 5329,

and failure to file the form can result in a penalty of up to 25% of the excise tax. The penalty will not apply if the failure is due to reasonable cause.

Generally, allowable pretax contributions to a traditional IRA are tax-deferred until their withdrawal. Contributions to a Roth IRA are from currently taxable income, which includes amounts converted from a traditional IRA. In years prior to 2010, such conversions were restricted by taxpayers' adjusted gross income (see "2010: The Year of the Roth Conversion?" *JofA*, Jan. 2010, page 28).

Robert K. Paschall, a married resident of California, worked his entire career for Rockwell International. Prior to his retirement in 1996, Paschall had established a regular IRA that by March 2000 had a value of \$1,391,942. In early 2000, Paschall met with A. Blair Stover, a partner with a national CPA firm, who presented Paschall with a plan, which he accepted, to "restructure" his regular IRA into a Roth IRA.

In 2000, under Stover's guidance and direction, Paschall rolled his IRA over into a self-directed traditional IRA. He also opened a self-directed Roth IRA, funding it with \$2,000, and created two corporations. The Roth IRA purchased all the stock of one corporation for \$2,000, and the traditional IRA purchased all the stock of the second corporation for close to the traditional IRA's balance. The second corporation transferred the purchase amount (plus \$120,000 paid as consideration in a merger) to the first corporation. The first corporation then transferred the proceeds, \$1,272,802, to the Roth IRA, which then transferred the funds into a second Roth IRA.

In 2008, the IRS assessed deficiencies against Paschall and his wife totaling more than \$425,000 for tax years 2002 to 2006 for the excise tax on the excess contribution of \$1,272,802 to the Roth IRA in 2000 and assessed penalties of more than \$103,000 for the same years for failure to file Form 5329. The taxpayers petitioned the Tax Court for relief.

The taxpayers argued that the statute

of limitation barred the assessment of the excise tax for 2002 to 2004, since they had filed Form 1040 for those years. The court disagreed, holding that Form 5329 is a separate tax return because it provides the IRS with information necessary to properly compute the section 4973 excise tax liability. Under section 6501, if a tax return is not filed, the tax can be assessed at any time.

The court also held that the \$1,272,802 transfer of cash to the Roth IRA was an excess contribution, since the substance of the series of Roth restructuring transactions was the transfer of the money from a traditional IRA to a Roth IRA without any taxes being paid. The court could not find a business, financial or investment reason for the series of transactions other than to avoid paying federal income taxes.

The taxpayers also argued that the penalty for Paschall's failure to file Form 5329 should not apply, since his failure to file was due to reasonable cause, specifically, his reliance on Stover. The court disagreed, finding that it was unreasonable for Paschall to rely on the opinion of a tax adviser who was actively involved in the planning of the transaction in question and was tainted by an inherent conflict of interest. The court further stated, "Mr. Paschall should have realized that the deal was too good to be true." Despite his doubts during the process, Paschall never asked for advice from an independent adviser, the court said.

In another case involving a similar Roth restructuring designed and executed by Stover, the Tax Court held that the taxpayers, Ronald and Donna-Kay Swanson, were liable for the accuracy-related penalty. The Swansons had conceded their additional tax liability but, like the Paschalls, contested the accuracy-related penalty, asserting they had relied in good faith on a professional. The court once again found that reliance on Stover was unreasonable because of his involvement in the transaction and his inherent conflict of interest. And, according to the court, the Swansons failed to

demonstrate they acted in good faith. Although Ronald Swanson, like Paschall, had doubts about the transaction, he never asked for a written opinion letter or sought the advice of an independent adviser, the court said. Swanson, moreover, was a successful businessman who studied tax books and prepared his own tax returns and "must surely have realized that the deal was too good to be true," the court said.

■ *Robert K. and Joan L. Paschall v. Commissioner*, 137 TC no. 2

■ *Ronald V. and Donna-Kay Swanson v. Commissioner*, TC Memo 2011-156

By **Charles J. Reichert**, CPA, instructor of accounting, University of Minnesota-Duluth.

FOREIGN TAX CREDIT

REGS SHUT DOWN ARTIFICIALLY GENERATED FTCs

The IRS issued final, temporary and proposed regulations providing guidance on determining the amount of taxes paid for purposes of determining the foreign tax credit. The regulations are designed to curb certain transactions that the IRS says "produce inappropriate foreign tax credit results." The final regulations (TD 9535), issued July 13, adopt temporary regulations issued in 2008, with some modifications. Identically worded temporary and proposed regulations (TD 9536 and REG-126519-11), issued July 14, added a paragraph to the regulations clarifying the treatment of withholding taxes.

The final regulations provide that amounts paid to a foreign taxing authority that are attributable to a "structured passive investment arrangement" are not treated as an amount of tax paid for purposes of the foreign tax credit. Structured passive investment arrangements are generally designed to exploit differences between U.S. and foreign tax law by artificially creating a foreign tax liability that allows the U.S. party to claim a U.S. for-

eign tax credit and a foreign counterparty to claim a duplicative foreign tax benefit. The U.S. and foreign parties share the cost of the purported foreign tax payments through pricing of the arrangement, the IRS said in the preamble to the 2008 temporary regulations (TD 9416).

The new regulations list six conditions that all must be met to qualify an arrangement as a structured passive investment arrangement:

1. **The SPV condition.** The arrangement uses an entity (a special-purpose vehicle, or SPV) that meets two requirements: (A) Substantially all of the entity's gross income, as determined under U.S. tax principles, is attributable to passive investment income, and substantially all of the entity's assets are held to produce such passive investment income; and (B) there is a foreign payment attributable to income of the entity. Although the 2008 temporary regulations had contained an exception for withholding tax, the final regulations removed it, stating that withholding tax imposed on a dividend or other distribution from a foreign entity related to equity of the entity made to a U.S. party is a foreign payment attributable to income of the entity. The new temporary regulations clarified that this rule applies to distributions made by a pass-through entity or other entity disregarded as separate from its owner for U.S. tax purposes.
2. **The U.S. party condition.** A U.S. party is a person eligible to claim a foreign tax credit under IRC § 901(a), including a credit for taxes deemed paid under section 902 or 960, for all or a portion of foreign tax paid.
3. **The direct investment condition.** The U.S. party's share of the foreign payment or payments is (or is expected to be) substantially greater than the amount of credits, if any, that the U.S. party reasonably would expect to be eligible to claim under section 901(a) for foreign taxes attributable to income generated by the U.S. party's

Federal Tax Liens and Seizures, 2002–2010



Although liens and seizures increased in the past nine years by 127% and 104%, respectively, seizures fell 14% between 2007 and 2009.

Source: IRS Data Book, Table 16b, "Delinquent Collection Activities, Fiscal Years 2002–2010," tinyurl.com/44cftwp.

proportionate share of the assets owned by the SPV if the U.S. party directly owned such assets.

4. **The foreign tax benefit condition.**

The arrangement is reasonably expected to result in a tax benefit to a counterparty (or a related person) under the laws of a foreign country.

5. **The counterparty condition.** The arrangement includes a person that, under the tax laws of a foreign country in which the person is subject to tax on the basis of place of management, place of incorporation or similar criterion or otherwise subject to a net basis tax, directly or indirectly owns or acquires equity interests in, or assets of, the SPV.

6. **The inconsistent treatment condition.**

The United States and an applicable foreign country treat the arrangement inconsistently under their respective tax systems, and the U.S. treatment results in either materially less income or a materially greater amount of foreign tax credits than would be available if the foreign law controlled the U.S. tax treatment.

The final regulations are effective for

payments that, if such payments were an amount of tax paid, would be considered paid or accrued on or after July 17, 2011.

ECONOMIC SUBSTANCE PENALTIES

ECONOMIC SUBSTANCE GUIDANCE ISSUED TO IRS EXAMINERS

The IRS Large Business and International (LB&I) Division in July issued guidance to examiners on the recently codified economic substance doctrine limiting the application of penalties relating to the doctrine (LB&I-4-0711-015).

The Health Care and Education Reconciliation Act of 2010 (PL 111-152) codified the economic substance doctrine and a related strict liability penalty for transactions entered into after March 30, 2010. The IRC § 6662(b)(6) strict liability penalty applies to any transaction lacking economic substance under section 7701(o) and "any similar rule of law." The penalty is 40% if the transaction is undisclosed (section 6662(i)) and 20% if it is adequately disclosed on Form 8275, *Disclosure Statement*, Form 8275-R,

Regulation Disclosure Statement, or *Schedule UTP, Uncertain Tax Position Statement*, with additional requirements for reportable transactions.

The IRS has said that it does not intend to provide substantive guidance to taxpayers on the codified economic substance doctrine (see Notice 2010-62).

The LB&I directive issued July 15 told IRS examiners that, until further guidance is issued, they should apply the penalties in sections 6662(b)(6) and (i) and 6676 (governing erroneous claims for refund or credit) only to the economic substance doctrine and may not impose them due to the application of any other "similar rule of law" or judicial doctrine, such as the step-transaction, substance-over-form or sham-transaction doctrines.

The LB&I directive also instructs IRS examiners how to determine when it is appropriate to seek the approval of the director of field operations (DFO) to raise the economic substance doctrine as an issue.

The directive clarifies for examiners that, for transactions involving a series of interconnected steps with a common

objective, the term "transaction" refers to all of the steps taken together. Examiners can apply the directive separately to one or more steps with a common objective but must seek guidance from their manager and consult with local IRS counsel before doing so.

ELECTIONS AND CREDITS

FINAL REGULATIONS SIMPLIFY REDUCED RESEARCH CREDIT ELECTION

The IRS released final regulations (TD 9539) further simplifying an election method by which taxpayers may use a standard rate to reduce a research credit under IRC § 41 in lieu of reducing their research expense deductions. The final regulations also clarify how members of a controlled group may make the election. The final regulations adopt with some modification proposed regulations issued in 2009 (REG-130200-08).

Under IRC § 280C(c), a deduction in a tax year for qualified research expenses under section 41(b) or basic research expenses under section 41(e)(2) must be reduced by the credit amount for that tax year. Similarly, where those expenses are capitalized, the amount capitalized in that tax year must be reduced by the excess, if any, of the amount of the credit over the amount of such expenses otherwise allowable as a deduction. However, instead of either of those limitations, taxpayers may elect under section 280C(c)(3) to reduce their section 41 credit. The amount of the reduction equals the amount of the section 41 credit (without regard to section 280C(c)(3)) multiplied by the maximum corporate tax rate.

The statute provides that the election is irrevocable for the tax year in which it is made and may be made anytime up to the return filing deadline, including extensions. Previously, the regulations (Treas. Reg. § 1.280C-4(a)) had provided that the election was made by claiming the reduced credit on an original return for the tax year.

The new final regulations specify that

the election must be made on Form 6765, *Credit for Increasing Research Activities*, filed with the original return.

Controlled groups. Under Treas. Reg. § 1.41-6, all members of a controlled group of corporations (or trades or businesses under common control) are treated as a single taxpayer, and the group credit amount is allocated to each member in proportion to the stand-alone entity credits of the members of the controlled group (if the group credit does not exceed the aggregate stand-alone credits of the group members). If the group credit exceeds the aggregate stand-alone credits, the excess is allocated to each member in proportion to its share of qualified research and other expenses for which the credit is claimed.

The final regulations provide that each member of a controlled group may make the election after the group credit is computed and allocated. One commentator was concerned about the administrative complexity of having each member of a controlled group make the election. Accordingly, the final rules clarify that a common parent of a consolidated group filing a consolidated return may make the election on behalf of all members of the group. The common parent must adequately identify the group members for which the election is being made on an attachment to its Form 6765.

The final regulations also add an example clarifying that a member of a controlled group may make the election on its original return even if it does not claim the credit. Otherwise, the member could be barred from making the election later if another member of the group determines that it had understated its qualified research expenses for the tax year, resulting in an increased group credit with a portion allocable to the nonelecting member.

The final regulations amend Treas. Reg. § 1.280C-4 and apply to tax years ending on or after July 27, 2011.

Tax Matters editor Paul Bonner can be reached at pbonner@aicpa.org or 919-402-4434.

Line Items

IRS NOTIFIES NONCOMPLIANT PREPARERS ON PTINs

The IRS announced in July that it had identified approximately 100,000 tax return preparers who did not comply with the new rules for preparer tax identification numbers (PTINs) and was sending them letters informing them of the problem (IR-2011-74).

All tax return preparers (including CPAs, attorneys and enrolled agents) were required to apply for and obtain a PTIN—even if they already had one—before preparing any federal tax returns for compensation in 2011. By this summer, approximately 712,000 preparers had obtained new PTINs under the registration program, which launched in September 2010.

The IRS said that it was sending letters to preparers who used outdated PTINs or their Social Security numbers as identifying numbers on returns they prepared this past tax season. The letters explained the PTIN registration requirement and told the preparers how to register for a new PTIN or renew an old PTIN.

The IRS also announced that it is working to detect what it calls "ghost preparers"—that is, preparers who attempt to avoid the new return preparer registration program by not signing returns they prepare. When the IRS identifies taxpayers who appear to have had assistance with their returns but whose returns lack tax return preparer signatures, it will send them a letter informing them how to file a complaint against preparers who fail to sign returns and explaining how to choose legitimate tax preparers.

The IRS is also working to identify tax return preparers who make repeated errors.



AICPA®

NOW OPEN!

The AICPA Store is now open on Amazon.com

A growing selection of popular AICPA publications are now available for sale on Amazon.com.

Be sure to tell your colleagues and clients about this convenient new way to shop for top AICPA publications, while enjoying all the benefits of shopping on Amazon.com, including flexible shipping options, quick delivery, and safe and secure online shopping.

amazon.com/aicpa

*Amazon is currently not able to honor the AICPA member discount price. For the member discount and the complete selection of AICPA publications, please visit the AICPA Store at CPA2Biz.com.

cpa2biz.com
888.777.7077

TAX MATTERS

D.C. CIRCUIT AGAIN HANGS UP ON IRS

The U.S. Court of Appeals for the District of Columbia, sitting en banc, upheld its earlier panel decision, keeping alive an administrative challenge to the IRS' method of refunding the former long-distance telephone excise tax (*Neiland Cohen v. U.S.*, docket no. 08-5088 (D.C. Cir. 7/1/11)). The earlier decision had remanded and partially reversed a district court's dismissal (599 F.3d 652 (3/11/10), *rev'g in part*, 539 F. Supp. 2d 281 (D.D.C. 3/25/08); see previous *JofA* Tax Matters coverage, Oct. 2009, page 73).

Five circuit courts held the 3% excise tax on toll phone charges under IRC §§ 4251 and 4252(b) inapplicable because, beginning in the 1990s, toll calls were no longer charged by distance. The Service then said in Notice 2006-50 it would stop collecting the tax (which phone companies had billed customers and remitted). Taxpayers could claim a one-time-only refund on their 2006 income tax returns for either actual taxes paid from 2003 to 2006 or a safe-harbor amount (for individual taxpayers, between \$30 and \$60, depending on their number of personal exemptions).

Several lawsuits challenged the refund regime, and three were consolidated from multiple districts into the instant case. It claims the IRS undercompensated taxpayers for an illegally collected tax and represented an abuse of discretion by the Service and was arbitrary and capricious. The District Court for the District of Columbia dismissed the case for failure to exhaust administrative remedies. A split D.C. Circuit panel held the plaintiffs could challenge the refund regime under the Administrative Procedure Act (APA, 5 USC § 500 et seq.), finding that the revenue procedure was a final agency action subject to the APA rather than an internal policy, as the IRS had argued. On rehearing en banc, the court considered only whether it had jurisdiction to hear the case and whether the plaintiffs had stated a claim for which relief could be granted. Deciding both questions in the affirmative, the court remanded the case for consider-

ation of the APA claim.

Two other judges joined Judge Brett Kavanaugh in a dissent saying the plaintiffs should first be required to file administrative refund claims and then tax refund lawsuits before having standing to sue under the APA.

IRS DISCONTINUES HIGH-LOW METHOD FOR TRAVEL EXPENSES

The IRS announced that it is discontinuing the high-low method for substantiating lodging, meal and incidental expenses incurred in traveling away from home (Announcement 2011-42). Last year, the IRS asked for comments on whether the high-low method was still needed, and it received no comments.

Under the high-low substantiation method, if an employer pays a per diem allowance in lieu of reimbursing actual lodging, meal and incidental expenses an employee incurs when traveling away from home, the amount of the expenses that is deemed substantiated (under IRC § 274(d)) for each calendar day is equal to the lesser of the per diem allowance for that day or the amount computed at the rate provided in an annual revenue procedure for the locality of travel for that day or partial day. This method was intended to be a simplified substantiation method to be used in place of the regular per diem substantiation method using the federal per diem rate.

The IRS has annually issued an updated per diem rate for travel to any specified "high-cost locality" or other locality within the continental United States. Under the high-low substantiation method, the high or low rate, as appropriate, applied as if it were the federal per diem rate for the locality of travel.

The IRS said it planned to publish a revenue procedure later this year that will provide general rules and procedures for substantiating travel expenses (omitting the high-low substantiation method). It will then no longer publish annual updates, but it will publish a new revenue procedure only when it modifies the rules and procedures. However, the IRS will continue publishing the special transportation industry per diem rate in an annual notice.

Do you need to train multiple staff members?

AICPA Learning group sales has everything your team needs.

Options include:

- On-Site Training – Focused training at your location for groups of 10+
- CPExpress – 24/7 online Firm Access starting at 10 users
- Conferences – Group discounts for 2 or more
- Webcasts – Group discounts for 5 or more
- Publications & Self-Study – Volume discounts

Visit at **aicpalearning.org** or call **800.634.6780** (option 1) today.

EXPENSES & DEDUCTIONS

Business Autos and 100% Bonus Depreciation

Practitioners who are helping clients decide whether to take advantage of the new 100% bonus depreciation provision should be aware of how it affects depreciation of business automobiles. The Code section allowing bonus depreciation (IRC § 168(k)(1)) says that the adjusted basis of qualified property must be reduced by the bonus depreciation allowance (50% or 100%, as applicable) before computing the amount otherwise allowable as a depreciation deduction for the initial and all subsequent tax years.

The regulations define “remaining adjusted depreciable basis” as the unadjusted depreciable basis of qualified property reduced by the amount of bonus depreciation allowed or allowable. This remaining adjusted depreciable basis is then depreciated using either the applicable calculations (double-declining balance in the case of business autos) or the optional depreciation tables (Treas. Reg. § 1.168(k)-1(d)(2)). Clearly, the authors of these provisions never envisioned the advent of 100% bonus depreciation, which reduces the remaining adjusted depreciable basis to zero, leaving nothing to which to apply either the declining balance calculations or the table percentages.

Normally, this would not matter because the asset in question already would have been fully depreciated in the placed-in-service year by the application of the 100% bonus. However, the depreciation of business autos is subject to yearly dollar caps (section 280F(a)). Although the cap for the first year of service is increased by \$8,000 when the auto qualifies for bonus depreciation, often the cost of a new auto will exceed the amount of the increased cap (\$11,060 for 2011). Therefore, there will be unrecovered basis, amounting to the difference between the car's cost and the first-year cap, but no way to depreciate this unrecovered basis in subsequent recovery years because the remaining adjusted depreciable basis after 100% bonus depreciation is zero. Instead, the unrecovered basis is deducted beginning in the first tax year after the recovery period (section 280F(a)(1)(B)). For a \$25,000 car (assuming 100% business use and no section 179 expense taken), \$11,060 depreciation would be deducted

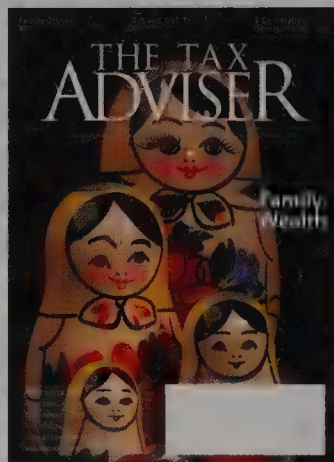
in the initial year, but the unrecovered basis of \$13,940 could be expensed only beginning in the seventh year, subject to the section 280F cap each year. Years 2–6 would receive no depreciation deduction.

Anticipating this problem, Revenue Procedure 2011-26 provides a safe-harbor method for business automobiles that qualify for 100% bonus depreciation. Depreciation for the first placed-in-service year remains the lesser of 100% bonus depreciation or the first-year limitation amount. For subsequent recovery years, the taxpayer applies the applicable table rates to the remaining adjusted depreciable basis of the asset as if a 50% bonus had been claimed instead of 100%; that is, they are applied to 50% of the unadjusted depreciable basis rather than to zero. This produces reasonable depreciation deductions for years 2–6 and a correspondingly smaller amount of unrecovered basis to be expensed beginning in the seventh year.

If there is no unrecovered basis from the first year under the safe-harbor method, a taxpayer cannot use the optional depreciation tables for subsequent years and, instead, depreciates the automobile in those years using the double-declining-balance method, applied to the adjusted depreciable basis—that is, the adjusted basis after depreciation deductions.

For a detailed discussion of the issues in this area, see “Some Implications of 100% Bonus Depreciation,” by Darcy R. Geffen, CPA, in the October 2011 issue of *The Tax Adviser*.

—Alistair M. Nevius, editor-in-chief
The Tax Adviser



The Tax Adviser is the AICPA's monthly journal of tax planning, trends and techniques. AICPA members can subscribe to *The Tax Adviser* for a discounted price of \$85 per year. Tax Section members can subscribe for a discounted price of \$30 per year. Call 800-513-3037 or email taxsection@aicpa.org for a subscription to the magazine or to become a member of the Tax Section.

Learn how this progressive firm gets **quicker,** **more accurate audit confirmations...**

"Confirmation.com has significantly helped our firm's audit process because it provides faster, more accurate responses, reducing many of the errors that we have experienced in the past."

~ Andrew R. Nelson, CPA
Schaffner, Knight, Minnaugh
& Company, P.C.



Andrew R. Nelson, a CPA at Schaffner, Knight, Minnaugh & Company, P.C., estimated he could easily spend 2 to 3 hours preparing confirmations for each client. After using Confirmation.com, Andy estimated he was spending no more than "one hour maximum per client, saving about 50%" of his time. In other words, 50% of Andy's precious billable hours were recovered for higher-value client work! To read the full case study, visit cpa2biz.com/SKM.

**Secure Online
Audit Confirmations**
Powered by Confirmation.com

Confirmation.com is an efficient online solution that saves your firm money by standardizing your audit confirmation process and enhancing your realization rates. It eliminates the time-consuming paper-based process while providing the highest level of security to reduce your exposure to fraud. You can send requests to any responder worldwide, and confirm all accounts, including A/P, A/R, bank, investment accounts, and more. With Confirmation.com, you can spend more time managing your clients' needs and provide greater value as a trusted business advisor.

For more information, visit cpa2biz.com/Confirmations

Technology Q&A

by J. Carlton Collins

MAKE A DIFFERENCE WITH PIVOTTABLES

Q For many years we have created PivotTables in Excel, but it is frustrating because there doesn't seem to be a way to add, subtract or divide columns. We want to subtract our actual columns from our budget columns to produce the difference and difference percentages. If there is a way to do this, we have never been able to find it. Can you help us?

A You are not alone; many CPAs struggle with this same situation. The problem arises when you use your mouse to write a formula that references a cell in a PivotTable. In this case, Excel automatically inserts the GETPIVOTDATA function into your formula, as shown below in cell D2.

	January Actual	January Budget	
	11,119	13,200	=GETPIVOTDATA("January Budget", \$A\$1, "Accounts", "Accounting Fees") - GETPIVOTDATA("January Actual", \$A\$1, "Accounts", "Accounting Fees")
	1,203	(2,400)	
	3,346	1,300	

As a result, the formula cannot be properly copied with relative references to adjacent cells.

Presented below are two possible solutions: writing formulas using the keyboard, and inserting calculation columns into the PivotTable.

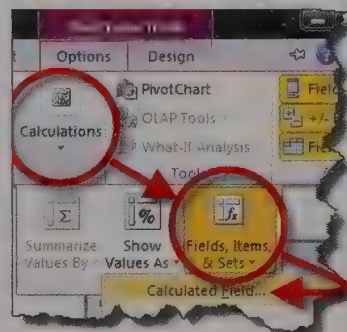
1. **Writing formulas using the keyboard.** If you write formulas that reference PivotTable cells by typing cell references into the formula using your keyboard instead of pointing to the cell using your mouse, Excel does not insert the GETPIVOTDATA function. The screenshot below shows the resulting formula in column D (=C2-B2), which was created using the keyboard instead of the mouse pointer.

	January Actual	January Budget	
1 Expenses			
2 Accounting Fees	11,119	13,200	2,081
3 Advertising Expense	1,203	(2,400)	
4 Accounting Fees	3,346	1,300	

This formula can then be copied to the cells below to produce the desired column differences. (**Note:** A problem with

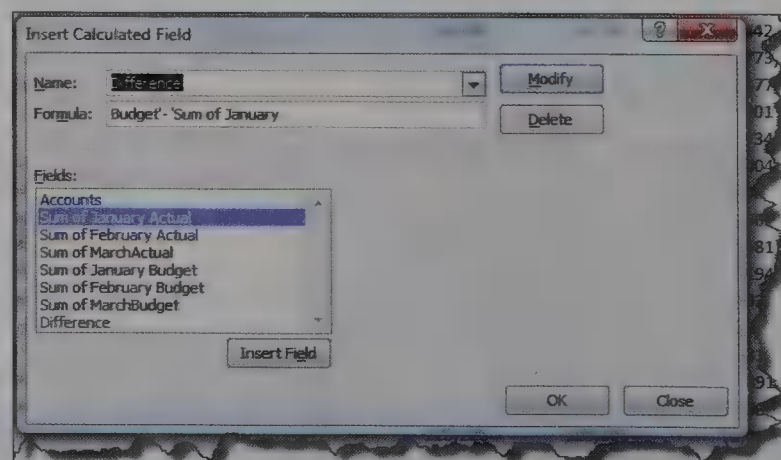
this method is that as you refresh your PivotTable, it may grow or shrink, which could reposition data in different cells. As a result, formulas created with your keyboard may no longer reference the correct data cells.)

2. **Inserting calculation columns into the PivotTable.** A better approach is to insert a new calculation column into your PivotTable using the **Fields, Items, & Sets** tool. To use this tool in Excel 2010, first select a cell within the PivotTable you want to modify, then from the **PivotTable Tools** menu, select **Options, Calculations, Fields, Items, & Sets** as shown below. (In Excel 2007, select **PivotTable Tools, Options, Formulas, Calculated Field**).



In the resulting **Insert Calculated Field** dialog box (shown below), type a name (to appear as the column label) in the **Name** box, then create the desired formula you want in the **Formula** box. To create the formula, start by inserting an equal sign, then select the column you want to appear in your formula from the

Fields box and click the **Insert Field** button to add that field to your formula. Add mathematical operators (such as "+", "-", "/", and "*") and continue this process until your formula is complete. (**Note:** The **Formula** box displays only one line of your formula at a time, making it difficult to view formulas in their entirety. Therefore, when creating lengthy formulas, you must use the left and right arrow keys to scroll, view and edit it.)



When you have completed your formula, click **OK** and the resulting new calculation column will appear as follows:

2081.33			
	B	C	D
	January	January	
	Actual	Budget	Difference
	11,119	13,200	2,081
	1,203	(2,400)	(3,603)

Repeat this process to insert an additional column to calculate the percentage difference.

Note: The fact that Excel automatically inserts the GETPIVOTDATA function into formulas when referencing PivotTable data frustrates many CPAs, but actually, it is a good solution because it allows those formulas to continue to reference the correct data, even if the PivotTable shrinks or grows.

X MARKS THE SPOT

Q I have three computers—a laptop for traveling, one at the office and one at home. I frequently use my **Favorites** button in Internet Explorer to bookmark useful websites and, to keep my Favorites up to date on all three computers, I transfer my Favorites from each computer to the others using a USB drive. This tiresome task requires constant updating. I am hoping that you can advise me of a better way to manage my Favorites.

A Presented below are two suggestions for managing your favorite Bookmarks across multiple computers—XMarks and a hotlist.

XMarks solution. XMarks is a free program available from xmarks.com that installs on each computer you use, and continuously uploads your Favorites (or Bookmarks) from each of your computers to your XMarks account on the Web. Thereafter, XMarks collects and combines all of your favorite Bookmarks and synchronizes them back to each computer. In effect, each time you create a Favorite or Bookmark on one computer, XMarks adds that same Favorite or Bookmark to all of your computers.

To use XMarks, visit the XMarks website and click the **Install Now** button as shown at right. Follow the instructions for downloading and installing the product, and repeat the process on each computer, using the same login name.

XMarks works across all of your computers, even if they use different browsers, such as Mozilla

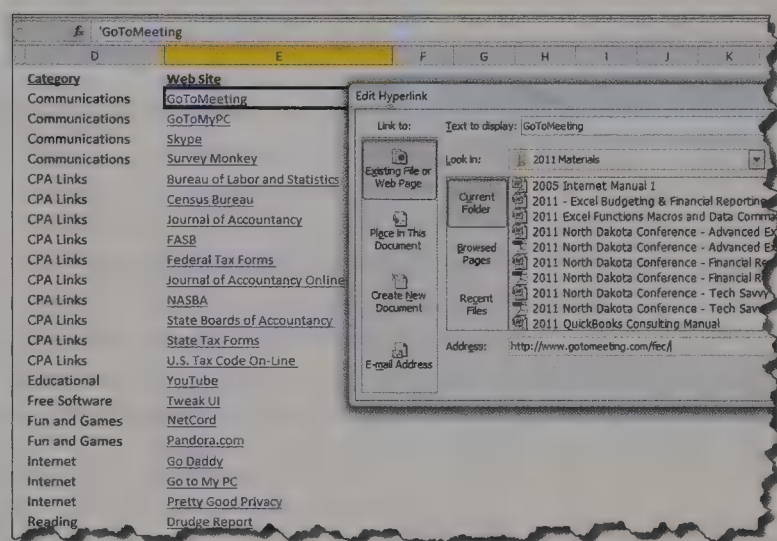


Firefox, Google Chrome, Microsoft Internet Explorer or Apple Safari. (**Note:** For \$1 per month, XMarks Premium will also synchronize Favorites and Bookmarks to your smartphone and tablet PC.)

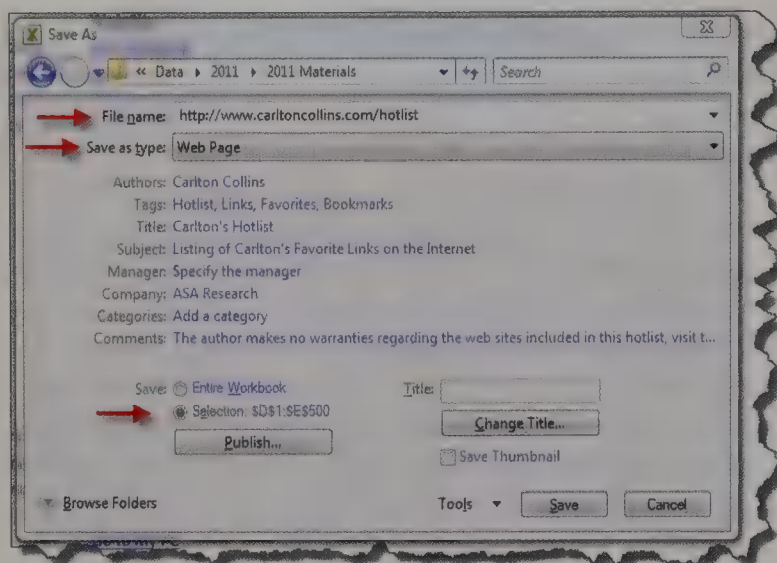
Note: Both the Firefox and Chrome browsers have this type of cross-computer syncing functionality built in.

Hotlist solution. The hotlist solution requires access to a website and involves publishing a Web page containing your favorite links. While there are many tools you could use to create your hotlist (such as Expression Web, ColdFusion and Dreamweaver), I prefer to use Microsoft Excel because this allows me to easily re-sort my hotlist after editing. Presented below are steps for creating and publishing a hotlist using Excel.

1. Create a list of your favorite websites on an Excel worksheet.
2. Optional: If desired, assign each link to categories for easy sorting, as shown below.



3. Highlight each listing and press Ctrl+K to insert the appropriate hyperlink address. (I find the best approach is to first display the target website in a Web browser, then copy the Web address from the browser's address bar and paste it to the **Address** box in the **Edit Hyperlink** dialog box. This is not only faster, but it also helps ensure the hyperlink's accuracy.)
4. Continue to insert hyperlinks for each listing on your hotlist, then sort the listing by category (if desired).
5. In your Excel worksheet, highlight your hotlist, and from the **File** tab, select **Save As**.
6. In the **File name** box, enter the full path to your website and include a file name (for example, I entered <http://www.carltoncollins.com/hotlist>).
7. In the **Save As** dialog box (at the top of the next page), select **Web Page** from the **Save as type** dropdown menu.
8. Optional: If desired, enter Web page meta text such as **Authors**, **Tags**, **Title** or **Subject**.
9. Under the **Save** option, select the radio button labeled **Selection**.



10. Click either the **Publish** button or the **Save** button (in the bottom-right corner), and in the resulting **Publish as Web Page** dialog box, click **Publish**.

11. When prompted, enter the user name and password for your website and click **OK**.

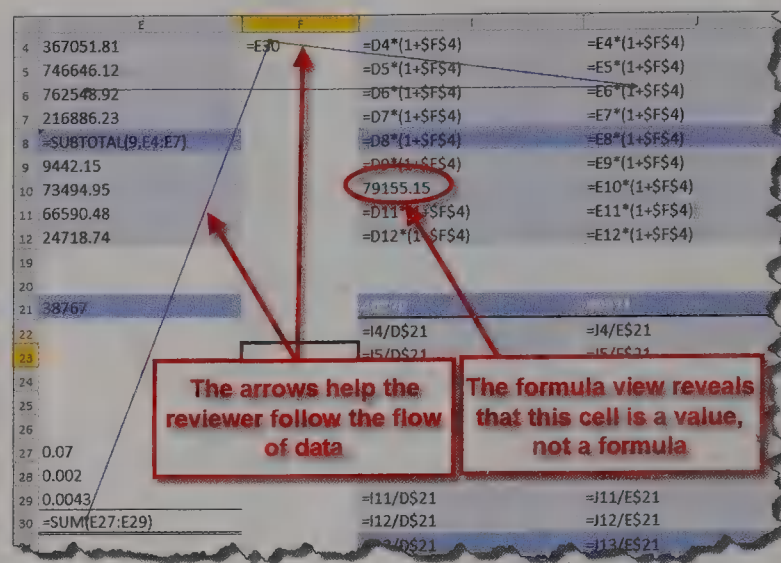
This will publish the selected portion of your Excel worksheet to the Internet as a Web page hotlist, which includes your favorite hyperlinks. Browse to the resulting Web page hotlist and set it as your Internet Explorer browser's default home page on each of your computers by selecting **Tools, Internet Options, General** tab, **Use Current**, **OK**. You can view the resulting Excel-based hotlist that I created in this example at carltoncollins.com/hotlist.htm.

CONTROL YOUR ACCENT

Q When reviewing Excel workbooks that contain hundreds of formulas, I often find the review process time-consuming and frustrating. Can you provide suggestions that would make this process easier?

A An obvious solution for making the workbook review process easier is to ensure that all data and formulas are well labeled and that the source of all data and the logic behind complex calculations are well documented. Assuming this is the case, in all editions of Excel use the Ctrl+` key combination to display the workbook's formula view. (The accent mark key is located below the Esc key. The accent mark looks like a backward apostrophe and is technically referred to as a "grave.") This view allows you to see all formulas at a glance for easier readability, traceability and diagnosis. Press Ctrl+` again to toggle back to normal view. In addition, you can use the **Trace Precedents** tool to insert arrows that establish the flow of data through the workbook's formulas, as shown at the top of the next column.

To add data flow arrows in Excel 2007 and 2010, select a formula in your workbook that you want to evaluate and, from the **Formulas** tab, click the **Trace Precedents** tool in the **Formula**

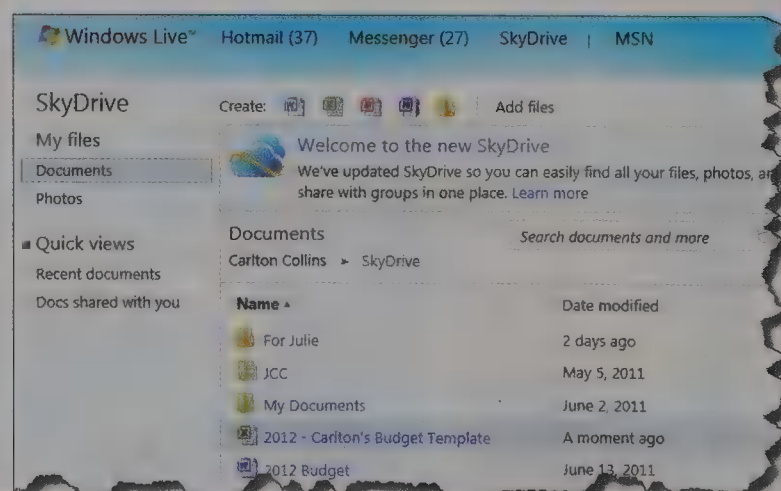


Auditing group. Click the **Trace Precedents** tool again, as needed, to insert additional data flow arrows to continue tracing the data flow backward to the original source data. In Excel 2003, the **Trace Precedents** tool is located in the **Formula Auditing** toolbar, which appears when you press the Ctrl+` key combination or when you select **View, Toolbars, Formula Auditing** from the Excel 2003 menu.

A SKY-HIGH SOLUTION

Q I am scheduled to manage a large project with people located in several countries, and our goal is to produce a detailed Excel workbook and report. Accordingly, we will all need shared access to these documents for editing and review purposes. To further complicate matters, this group has a variety of electronic spreadsheet and word-processing tools loaded on their computers, and some group members have non-Windows operating systems. In this situation, can you recommend a good way for us to share common documents?

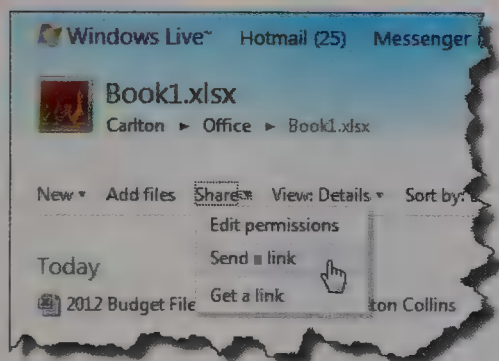
A Microsoft offers a free solution called Windows Live SkyDrive, which enables everyone in your group to share Word and Excel (and other) documents. This solution also provides users with Word, Excel and PowerPoint applications (with limited



functionality) so your group members can work in the same applications.

To use SkyDrive, sign up for a free Windows Live account at explore.live.com. Under the **SkyDrive** menu, select **Get started** and follow the instructions for setting up a Windows Live account. Once you have registered, sign in to your account and click the **SkyDrive** menu option at the top of the screen to view your **SkyDrive** (see screenshot at the bottom of the previous page).

Next create a folder and upload (or create) the group's Word and Excel files. Select the folder and, under the **Share** menu, select **Edit permissions** to send links to your group members, enabling them to access the data files.



Notes: The free version of Windows Live SkyDrive is limited to 25 gigabytes of storage, and individual files are limited to 50 megabytes. For a fee, you can increase these capacities. Installing Microsoft's free Silverlight browser add-in will enable drag-and-drop functionality to and from your SkyDrive. Windows Live SkyDrive was introduced in August 2007 and is widely used.

Google offers a similar free solution called Google Docs, which is available at docs.google.com. The free version of Google Docs is limited to 1 GB of storage, and individual files are limited from 1 MB to 1 GB, depending on various factors. For a fee, you can increase these capacities. Portions of Google Docs were introduced in August 2005, and this solution was acquired by Google

in 2006. Google Docs is also widely used, and an example of the Google Docs main page is shown at the bottom of the page.

FIVE INEXPENSIVE TECHNOLOGIES

Presented below are a few inexpensive computer gadgets that you might find useful.

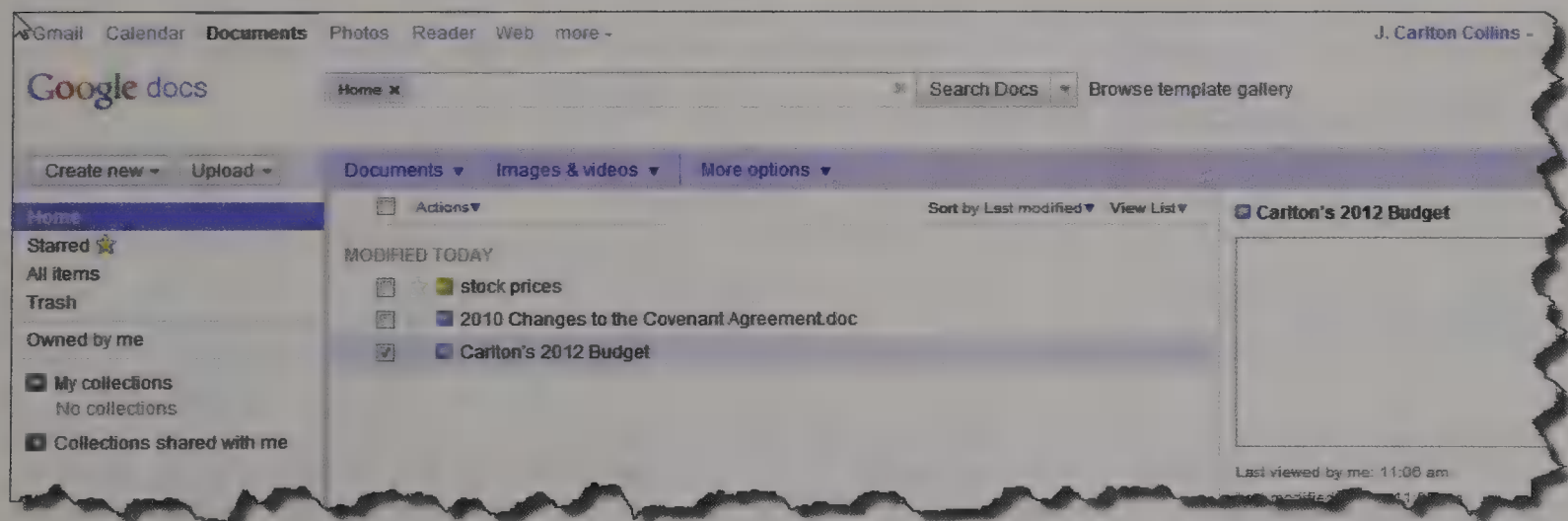
1. **USB extension cable.** A USB extension cable that plugs into the back of your computer and extends to your desktop will provide easier access to your USB port (cost: \$2 to \$5).
2. **Laptop traveling mouse.** Mini mice are smaller and have shorter cables, making them easier to carry with your laptop when you travel (\$8 to \$20).
3. **SD card.** Most newer computers have ports to accommodate both USB drives and SD cards, however SD cards don't stick out of the side of the laptop, making them more convenient for traveling (\$15 to \$40).
4. **USB laptop light.** Several manufacturers make small, flexible lights that can plug into your laptop's USB port to provide extra lighting, which can be handy on airplanes or in dark hotel rooms (\$10 to \$20).
5. **Laptop artwork cover.** Applying a laptop artwork cover to your laptop not only protects the surface from scratches, but also it makes your laptop readily identifiable, which might help deter thieves from stealing it in public venues or prevent mix-ups in airport security lines (\$20 to \$40). ❖

J. Carlton Collins (carlton@asaresearch.com) is a technology and accounting systems consultant and a JofA contributing author.

Note: Instructions for Microsoft Office in "Technology Q&A" refer to the 2007 and 2010 versions, unless otherwise specified.

Submit a question

Do you have technology questions for this column? Or, after reading an answer, do you have a better solution or a tip you would like to share? Send them to jofatech@aicpa.org. We regret being unable to individually answer all submitted questions.



Inside AICPA

ROTH CONVERSION ARTICLE WINS AWARD

Rich Arzaga received the *JofA*'s Lawler Award for the best article of 2010. His article, "2010: The Year of the Roth Conversion?" (Jan. 2010, page 28), discussed the tax benefits of converting from a traditional IRA to a Roth IRA for high-income individuals. Arzaga is founder and CEO of Cornerstone Wealth Management Inc. in San Ramon, Calif. His winning article is available at tinyurl.com/3fw64u3.

The award is named for John L. Lawler, a former *JofA* editor and AICPA senior vice president. Winners are chosen annually by the *JofA*'s board of editorial advisers.

For a full list of past winners, visit tinyurl.com/3prbdug.

Submit your own article to the *JofA*. To learn more about opportunities to be published by the *JofA*, visit tinyurl.com/3grtkh5 for author guidelines or contact Amelia Rasmus at arasmus@aicpa.org or 919-402-4449.

AICPA AND NASBA CREATE ONLINE MOBILITY TOOL

The AICPA and the National Association of State Boards of Accountancy have launched CPAmobility.org, an online tool that helps CPAs navigate the new practice privilege requirements that facilitate practice across state borders.

The website is a joint project that provides free information on mobility laws for all 50 states and five U.S. jurisdictions. For instance, CPAs can learn whether their existing home state registration is mobile and allows them to work in other jurisdictions without additional notice, or whether further paperwork

is required. In most cases additional registration is no longer required because mobility statutes recognizing CPA licenses granted by other states and jurisdictions have been enacted in 48 of the 55 U.S. jurisdictions.



Rich Arzaga (left) receives the *JofA*'s Lawler Award for the best article of 2010 from Thomas W. Rimerman, CPA/CFF, former AICPA board chairman.

The site provides users licensing and registration requirements after they answer the following three questions:

- Where is your principal place of business?
- Where are you going to perform services (target state)?
- What type of services will you perform?

CPAmobility.org also offers immediate access to the site through a mobile application for CPAs who are on the road or away from their offices.

AICPA LAUNCHES OFFICIAL BLOG

The Institute recently launched an official blog. AICPA Insights features posts from staff and lead-

ership on topics affecting the accounting profession, the Institute, its members and those the profession serves.

You can explore the blog, interact and share your comments at blog.aicpa.org.

LEADERSHIP ACADEMY CLASS OF 2011 SELECTED

CPAs under the age of 36 make up the third annual AICPA Leadership Academy.

This diverse group of CPAs will attend sessions in October to help develop the skills necessary to become the next generation of leaders in business, industry, government and the accounting profession.

Upon graduation from the Leadership Academy, the AICPA recommends each attendee for placement on either an AICPA

volunteer committee or a state society volunteer committee in the participant's home state.

The 34 participants were selected on the basis of their work history, licensure information, professional volunteer activities, community service, and awards and honors. In addition, each candidate supplied a statement explaining why participating in the academy would be important. All finalists were personally approved by both the AICPA chairman and CEO.

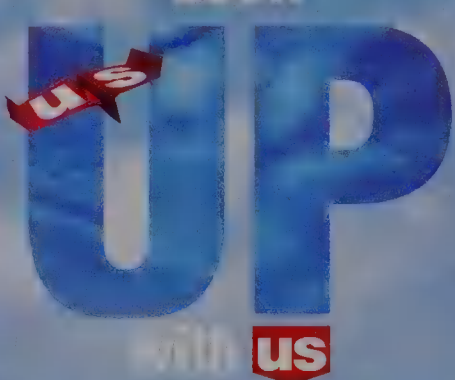
Participants represent all four of the Institute's major membership segments: public accounting, business and industry, government, and academia. The 2011 class has twice the number of business, industry and government participants as the classes of 2009 and 2010. The tax and audit split is 50/50, and 11 states have first-time participants. On an ethnic, gender and geographic basis, they are equally divided between men and women and include CPAs of Asian, African-American, Caucasian, Hispanic/Latino, Native American and Pacific Islander descent from all over the United States.

The Leadership Academy Class of 2011 includes:

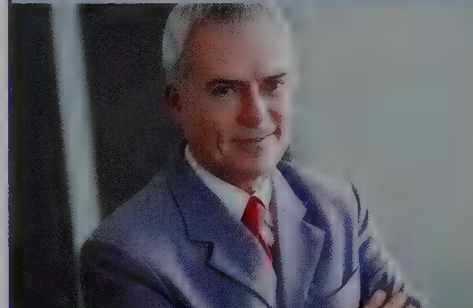
Brandon M. Allfrey, CPA, Squire and Co. PC, Orem, Utah
Zeeshan Baig, CPA, Uponor, Apple Valley, Minn.
Anna L. Barnes, CPA, Regions Financial Corp., Birmingham, Ala.
James K. Boomer, CPA/CITP, Boomer Consulting Inc., Manhattan, Kan.
Marie Brilmyer, CPA, SS&G Financial Services Inc., Akron, Ohio
Rachel M. Buse-Flaskey, CPA/ABV/CFF, Eide Bailly LLP, Sioux Falls, S.D.
Valarie Davis, CPA, Bauknight Pietras & Stormer PA, Columbia, S.C.
Mandy Kay French, CPA, HoganTaylor LLP, Oklahoma City, Okla.
Marie Gieringer, CPA, JPMS Cox PLLC, Little Rock, Ark.
Gerardo Godinez, CPA, Moss Adams LLP, San Diego
Keith R. Hoffman, CPA, Herbein+Co.

Inc., Reading, Pa.
Audrey J. Jaramillo, CPA, Moss Adams LLP, Albuquerque, N.M.
Darwin C. Jones, CPA, Apax Partners LP, New York City
Ernest Dominique Kammogne, CPA, Cargill Inc., Mt. Vernon, Ind.
Deborah Krambeck, CPA, Frankel Zacharia LLC, Omaha, Neb.
Luke Lammer, CPA, Loras College, Dubuque, Iowa
Raelynn D. Mackenzie, CPA, Amkor Technology, Chandler, Ariz.
Elizabeth McGlinn, CPA, L.L. Bean Inc., Freeport, Maine
Dana M. McIntire, CPA, Troutt, Beeman & Co. PC, Harrisonville, Mo.
Amber Marie Nuse, CPA, McGee, Hearne & Paiz LLP, Cheyenne, Wyo.
Dominic R. Ortiz, CPA, Prairie Band Casino & Resort, Mayetta, Kan.
Joshua W. Partlow, CPA, Johnson Lambert & Co. LLP, Burlington, Vt.
Andrew W. Powell, CPA, Virginia Auditor of Public Accounts, Richmond, Va.
Ed E. Ramos, CPA, Dwyer Pemberton & Coulson PC, Tacoma, Wash.
Alfonso Rossy Raices, CPA, Deloitte & Touche LLP, San Juan, Puerto Rico
Jeremiah Lee Rouane, CPA, First Interstate Bank, Billings, Mont.
Robert H. "Bobby" Schroeder IV, CPA, Weaver LLP, Houston
Robert Smalley III, CPA, BerryDunn, Manchester, N.H.
Leisa A. Stanberry, CPA, Leisa A. Stanberry CPA, Cookeville, Tenn.
Shannon M. Stith, CPA, Boise Inc., Boise, Idaho
Christine D. Sturtevant, CPA, Premier Medical Group Inc., Clarksburg, W.Va.
Alicia Sweeney, CPA, Ernst & Young LLP, Denver
Gordon Tom, CPA, KMH LLP, Honolulu
Jennifer Zerangue, CPA, Broussard Poché Lewis & Breaux LLP, Carencro, La.

LOOK



with **us**



Managing your practice:

Cash Flow	Payment
Business Growth	Future

Go from where you are to where you want to be with us.

At U.S. Bank, our goal is simple: to be the primary financial partner for you and your clients. We provide the strength and resources of a national bank, while maintaining our community roots, and delivering best in class, personalized service.

Our specialized Business Bankers know your community - because they live there - and have vast business banking knowledge to take your practice, and your customers' businesses, to new heights.

There has never been a better time to look up and look ahead with us. Contact us today.

All of **us** serving you®



usbank.com/smallbusiness
866.280.3751



All applications are subject to normal credit approval. Call your business banking expert for current rates and terms. Member FDIC

Member Service Center**1-888-777-7077**

Monday–Friday 9 a.m.–6 p.m. ET
 220 Leigh Farm Road • Durham, NC 27707

Fax: 1-800-362-5066 • service@aicpa.org • www.aicpa.org

Audit & Accounting Technical Information Hotline**1-877-242-7212**

Monday–Friday 9 a.m.–8 p.m. ET

AICPA Contact Information

AICPA Logo	888-777-7077
CPA Accessory Collection (www.cpaaccessories.com)	888-777-7077
CPA Logo	888-777-7077
Third-party logo requests	212-596-6107
AICPA Foundation	919-402-4534
AICPA Political Action Committee (AICPA PAC)	202-434-9276
Academic & Career Development	
Student Recruitment Programs and Products	919-402-4036
Recruiting Materials for the Profession	919-402-4036
CPE	888-777-7077
Accounting and Auditing Publications	919-402-4811
Accounting Standards (www.aicpa.org/privateGAAP)	212-596-6167
Advertising–Classified (<i>Journal of Accountancy</i> , <i>The Tax Adviser</i> , <i>CPA Career Center</i>)	800-237-9851
Advertising–Display (<i>Journal of Accountancy</i> , <i>The Tax Adviser</i>)	800-873-1677
Antifraud & Corporate Responsibility Resource Center	www.aicpa.org/antifraud
Audit & Accounting Technical Information Hotline	877-242-7212
Monday–Friday 9 a.m.–8 p.m. ET	
Audit Committee Effectiveness Center	ACMS@aicpa.org
Audit Quality Centers:	
Center for Audit Quality (www.theacq.org)	888-817-3277
Employee Benefit Plan (www.aicpa.org/ebpaqc)	202-434-9253
Governmental (www.aicpa.org/gaqc)	202-434-9259
Auditing Standards	212-596-6032
Benevolent Fund	866-527-2228
Business, Industry & Government Member Inquiries	919-402-4816
busindgov@aicpa.org	
Committee Appointments	212-596-6097
(volunteerservices@aicpa.org and http://volunteers.aicpa.org)	
Committee Reimbursements	asingletary@aicpa.org
Communications	212-596-6117
Competency Self-Assessment Tool	www.cpa2biz.com/CAT
Compilation and Review Engagements	212-596-6250
Copyright Permissions (www.copyright.com)	978-750-8400
CPA Client Bulletin, CPA Client Tax Letter	919-402-4060
CPA Letter Daily (editorial) (www.aicpa.org)	212-596-6118
CPE (www.cpa2biz.com/cpe)	888-777-7077
AICPA Learning Center	www.cpa2biz.com/learning
Credentials and Technical Member Sections	888-777-7077
Accredited in Business Valuation credential	abv@aicpa.org
Forensic & Valuation Services	fvs@aicpa.org
Certified in Financial Forensics credential	cff@aicpa.org
Certified Information Technology Professional credential	citp@aicpa.org
Information Technology Services	infotech@aicpa.org
Personal Financial Planning Services	pfp@aicpa.org
Personal Financial Specialist credential	pfs@aicpa.org
Examinations (Uniform CPA Exam)	www.cpa-exam.org
Federal Legislation (nontax congressional matters)	202-434-9206
Federal Regulatory Matters (non-tax-related)	202-434-9253
Financial Literacy Campaign	www.aicpa.org/financialliteracy
(financialliteracy@aicpa.org)	
	www.360taxes.org
General Counsel (mbuddendeck@aicpa.org)	919-402-4925
IFRS Certificate Program	ifrs.com/certificate
International Financial Reporting Standards (www.ifrs.com)	877-242-7212
International Relations	212-596-6048

AICPA Contact Information (continued)

Joint Trial Board (ckane@aicpa.org)	212-596-6101
<i>Journal of Accountancy</i> (editorial)	919-402-4449
(www.journalofaccountancy.com)	
Library (University of Mississippi)	866-806-2133
(www.olemiss.edu/depts/general_library/aicpa)	
Media Relations	212-596-6119
Minority Initiatives	919-402-4931
PCPS—member section for local, regional firms	800-CPA-FIRM
(Small firm issues)	212-596-6039
Peer Review	919-402-4502
<i>Practicing CPA</i> , <i>The</i> (editorial)	919-402-4854
Professional Ethics, Ethics Hotline	888-777-7077
Behavioral or Independence Issues	888-777-7077
Technical Standard Issues	919-402-4921
Specialized Publications	919-402-4854
State Legislation	202-434-9201
<i>Tax Adviser</i> , <i>The</i> (editorial)	919-402-4888
Tax Section Member Services	800-513-3037
Work/Life and Women's Initiatives	919-402-4931

**Trusted Business Advisor Solutions
(available through CPA2Biz)**

Accounting and Financial Management Applications (Intacct)	www.cpa2biz.com/intacct
Business-Class Email (Apptix)	www.cpa2biz.com/email
CPA Firm Advertising Program (Google)	www.cpa2biz.com/google
Firm-Wide Workflow Automation (XCM Solutions)	www.cpa2biz.com/workflow
Paperless Bill Management (Bill.com)	www.cpa2biz.com/bill
Payroll, HR and Employee Benefits (Paychex) (www.cpa2biz.com/PaychexProgram)	877-264-2615
Secure Online Audit Confirmations (Confirmation.com)	www.cpa2biz.com/confirmations

AICPA Member Discount Program... www.cpa2biz.com/discounts**Insurance Programs**

Automobile	866-922-4272
Catastrophe Major Medical	888-294-0028
Commercial Property & Liability	866-283-7127
Disability	800-223-7473
Employment Practices Liability	800-221-3023
Group Life for Firms	800-223-7473
Group Variable Universal Life	800-223-7473
Home	866-922-4272
Life (Member/Spouse)	800-223-7473
Long-Term Care	800-223-7473
Medicare Supplement Plan	800-247-1771
Personal Liability Umbrella	800-223-7473
Professional Liability, CPA EmployerGard	800-221-3023
AICPA Certificate Frames (Church Hill Classics)	800-477-9005
AICPA Checking (Bank of America)	www.cpa2biz.com/checking
AICPA Credit Cards (Bank of America)	www.cpa2biz.com/bankofamerica
Audio & Web Conferencing (InterCall)	800-636-2377
Business Formation Services (BizFilings)	800-981-7183
Car Rental (Hertz, CDP #12353)	800-654-2200
Computers (HP)	800-888-8299
(Dell) (Member ID CS1470722)	800-695-8133
(Lenovo)	800-426-7235, ext. 3371
Copiers (Xerox Corporation) (#0706109)	800-275-9376, ext. 272
Credit Card Processing (Chase Paymentech)	888-213-8445
Firm-Based Retirement Program (Paychex)	877-264-2615
Home Mortgages and Equity Loans (Wells Fargo)	800-272-1210
Hotels (Starwood Hotels & Resorts Worldwide)	888-625-4988
Logo Apparel (Lands' End Business Outfitters)	800-864-2899
Office Supplies (Office Depot)	www.cpa2biz.com/officedepot
Professional Placement (Robert Half)	888-744-0012
Shipping Services (FedEx)	800-MEMBERS
Telecommunications (AT&T)	www.cpa2biz.com/att

This special program* — for **AICPA Members only** — offers savings on products and services you use every day, personally and professionally.

*Programs and discounts subject to change.

INSURANCE & FINANCE



AICPA Insurance Programs

Personal Insurance: 1-800-223-7473

Business Insurance: 1-800-221-3023

AICPA Retirement Programs

1-877-264-2615



cpa2biz.com/bankofamerica

cpa2biz.com/checking

See website for rate, fee,
and other cost information



1-866-327-6414

TRAVEL



cpa2biz.com/hertz

starwood
Hotels and
Resorts

1-888-625-4988

CONSUMER PRODUCTS



1-800-477-9005

BUSINESS SERVICES & FIRM SOLUTIONS



1-800-636-2377



cpa2biz.com/officedepot



1-888-213-8445



1-888-744-0012



The Small Business Incorporation Experts

1-800-981-7183



cpa2biz.com/intacctbenefits



1-800-864-2899

TECHNOLOGY



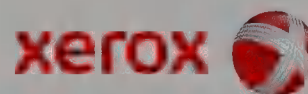
1-800-695-8133



1-800-888-8299



1-800-426-7235, ext. 3373



1-800-275-9376, ext. 272



cpa2biz.com/att



1-800-636-2377



DRAFTS OUTSTANDING

(This list was compiled as of Aug. 19, 2011. More current information may be available from the respective standard setter.
Note: The policy for updating the list of exposure drafts and working drafts is that a document should remain on the list until a final document has been issued or the project has been dropped. However, no comments will be received after the comments deadline has expired.
 The list is not all-inclusive but is intended to present the exposure drafts and working drafts of particular interest to professional accountants.)

Issue Date	Title or Description	Comment Deadline	Issue Date	Title or Description	Comment Deadline
EXPOSURE DRAFTS					
FASB					
7/20/11	Proposed Accounting Standards Update, Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification (a consensus of the FASB Emerging Issues Task Force)	10/3/11	4/4/11	Omnibus Proposal AICPA Professional Ethics Division Interpretations and Definition	6/5/11
4/22/11	Proposed Accounting Standards Update, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment	6/6/11	2/28/11	Omnibus Proposal AICPA Professional Ethics Division Interpretations and Rulings	5/31/11
1/31/11	Supplementary Document, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities: Impairment	4/1/11	1/31/11	Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews—Performing and Reporting on Peer Reviews of Compilations Performed Under SSARS 19	4/29/11
1/28/11	Proposed Accounting Standards Update, Balance Sheet (Topic 210): Offsetting	4/28/11	3/13/09	Generally Accepted Privacy Principles	4/15/09
9/1/10	Proposed Accounting Standards Update, Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosure about an Employer's Participation in a Multiemployer Plan	11/1/10	11/26/08	Proposed Statements on Standards for Tax Services	5/15/09
8/17/10	Proposed Accounting Standards Update, Leases (Topic 840)	12/15/10	SEC		
7/20/10	Proposed Accounting Standards Update, Contingencies (Topic 450): Disclosure of Certain Loss Contingencies	8/20/10	5/20/09	Custody of Funds or Securities of Clients by Investment Advisers	7/28/09
6/24/10	Proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers	10/22/10	2/3/09	Roadmap for the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers	4/20/09
5/26/10	Proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities: Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)	9/30/10	GASB		
3/11/10	Proposed Statement of Financial Accounting Concepts, Conceptual Framework for Financial Reporting: The Reporting Entity	7/16/10	6/28/11	Recognition of Elements of Financial Statements and Measurement Approaches (Preliminary Views)	9/30/11
10/9/08	Going Concern	12/8/08	6/27/11	Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25)	9/30/11
8/7/08	Earnings per Share—an amendment of FASB Statement No. 128 (Revision of Exposure Draft Issued September 30, 2005)	12/5/08	6/27/11	Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)	9/30/11
6/6/08	Accounting for Hedging Activities (an amendment of FASB Statement No. 133)	8/15/08	6/27/11	Pension Accounting and Financial Reporting (Plain-Language Supplement)	9/30/11
ARSC (AICPA)			IFAC		
11/30/10	Proposed Statement on Standards for Accounting and Review Services, The Use of the Accountant's Name in a Document or Communication Containing Unaudited Financial Statements That Have Not Been Compiled or Reviewed	4/29/11	7/8/11	Proposed Redrafted International Education Standard, IES 5, Practical Experience Requirements	10/8/11
ASB (AICPA)			6/21/11	Proposed Revised International Education Standard, IES 1, Entry Requirements to Professional Accounting Education	9/21/11
12/21/10	Proposed Statement on Auditing Standards, Alert as to the Intended Use of the Auditor's Written Communication	4/29/11	5/2/11	International Good Practice Guidance (IGPG), Predictive Business Analytics: Forward-Looking Measures to Improve Business Performance	7/29/11
OTHER (AICPA)			4/29/11	Proposed International Standard on Assurance Engagements, ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information	9/1/11
6/1/11	Proposed Principles and Criteria for XBRL-Formatted Information	7/15/11	4/29/11	International Public Sector Accounting Standards Board, Key Characteristics of the Public Sector with Potential Implications for Financial Reporting	8/31/11
			4/28/11	Proposed Redrafted International Education Standard, IES 6, Assessment of Professional Competence	7/28/11
			4/15/11	Proposed Redrafted International Education Standard, IES 4, Professional Values, Ethics, and Attitudes	7/15/11
			3/29/11	Exposure Draft 45, Improvements to IPSASs, 2011	6/30/11
			1/13/11	Proposed International Standard on Review Engagements, ISRE 2400 (Revised), Engagements to Review Historical Financial Statements	5/20/11

DRAFTS OUTSTANDING

Issue Date	Title or Description	Comment Deadline
1/11/11	Proposed International Standard on Assurance Engagements, ISAE 3410, Assurance Engagements on Greenhouse Gas Statements	6/10/11
12/15/10	Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities	6/15/11
12/10/10	Proposed Redrafted International Education Standard, IES 7, Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence	3/8/11
11/4/10	IFAC Policy Position Paper #4, A Public Interest Framework for the Accountancy Profession	3/25/11
10/28/10	Proposed International Standard on Related Services, ISRS 4410 (Revised), Compilation Engagements	3/31/11
10/13/10	International Auditing Practice Statements, Proposals Relating to the Withdrawal of Existing IAPs and Clarification of the Status and Authority of New IAPs and Proposed IAP 1000, Special Considerations in Auditing Complex Financial Instruments	2/11/11
7/15/10	ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment and ISA 610 (Revised), Using the Work of Internal Auditors	11/15/10
4/28/10	Proposed International Standard on Assurance Engagements (ISAE) 3420, Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus	9/30/10
2/19/10	Proposed International Public Sector Accounting Standard, Service Concession Arrangements: Grantor	6/30/10
FASAB		
6/27/11	Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, 32	9/16/11
6/21/11	Revisions to Identifying and Reporting Earmarked Funds: Amending Statement of Federal Financial Accounting Standards 27	8/22/11

Issue Date	Title or Description	Comment Deadline
9/13/10	Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording	11/30/10
GAO		
8/2010	Government Auditing Standards, 2010 Exposure Draft	11/22/10
PCAOB		
2/26/08	Proposed Auditing Standard—Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards	5/12/08
10/17/07	An Audit of Internal Control That Is Integrated With an Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies	12/17/07
5/24/07	Amendments to Limit Board Rule 4003's Fixed Periodic Inspection Requirement to Firms That Regularly Issue Audit Reports	7/23/07
4/3/07	Proposed Auditing Standard—Evaluating Consistency of Financial Statements and Proposed Amendments to Interim Auditing Standards	5/18/07
12/19/06	Amendments to Board Rules Relating to Inspections	2/16/07
5/23/06	Proposed Rules on Succeeding to the Registration Status of a Predecessor Firm	7/24/06
5/23/06	Proposed Rules on Periodic Reporting by Registered Public Accounting Firms	7/24/06
10/26/04	Proposed Rule on Procedures Relating to Subpoena Requests in Disciplinary Proceedings	11/29/04

NONAUTHORITATIVE WORKING DRAFTS

FinREC (AICPA)

4/12/11	Audit and Accounting Guide, Employee Benefit Plans	6/10/11
4/6/11	Audit and Accounting Guide, Health Care Entities	6/6/11
9/10/08	Audit and Accounting Guide, Gaming	12/9/08

INFORMATION

The initials stand for the following organizations. Exposure drafts are available online at the Web addresses below or copies may be obtained at the address in parentheses (unless otherwise indicated).

FASB—	Financial Accounting Standards Board (Order Department, Financial Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116); www.fasb.org
GASB—	Governmental Accounting Standards Board (Order Department, Governmental Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116); www.gasb.org
AICPA—	American Institute of CPAs (AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110). The Institute publishes exposure drafts and working drafts exclusively on the Web at www.aicpa.org . Print copies are not available.
IASB—	International Accounting Standards Board (International Accounting Standards Board, 30 Cannon Street, London EC4M 6XH, United Kingdom); www.iasb.org
IFAC—	International Federation of Accountants (International Federation of Accountants, 545 Fifth Avenue, 14th Floor, New York, NY 10017); www.ifac.org

SEC—	Securities and Exchange Commission (Securities and Exchange Commission, 100 F Street, N.E., Washington, DC 20549); www.sec.gov
FASAB—	Federal Accounting Standards Advisory Board (Federal Accounting Standards Advisory Board, 441 G Street, N.W., Suite 6814, Washington, DC 20548); www.fasab.gov
GAO—	U.S. Government Accountability Office (available only in electronic format); www.gao.gov
PCAOB—	Public Company Accounting Oversight Board (Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, DC 20006-2803); www.pcaobus.org

AICPA TECHNICAL HOTLINE

The Technical Information Service answers inquiries about specific audit or accounting problems. Call toll-free 877-242-7212 or email query to aahotline@aicpa.org. This service is free to AICPA members.

OFFICIAL RELEASES

CLARIFIED STATEMENTS ON AUDITING STANDARDS

CLARIFIED STATEMENTS ON AUDITING STANDARDS

Note: All clarified Statements on Auditing Standards (SASs) will have the same effective date. Upon the issuance of all clarified SASs, one SAS will be issued containing all clarified SASs in codified format.

Statement on Auditing Standards—Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements (Redrafted)

Statement on Auditing Standards (SAS) *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements (Redrafted)* supersedes paragraphs .19–.21 of SAS No. 62, *Special Reports* (AICPA, *Professional Standards*, AU sec. 623 par. .19–.21).

CONTENTS

Introduction

Scope of This Statement on Auditing Standards/1–4

Effective Date/5

Objective/6

Requirements

Reports on Compliance With Aspects of Contractual Agreements or Regulatory Requirements/7–13

Application and Other Explanatory Material

Scope of This SAS/A1–A2

Reports on Compliance With Aspects of Contractual Agreements or Regulatory Requirements/A3–A7

Exhibit: Illustrations of Reports on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements/A8

INTRODUCTION

Scope of This Statement on Auditing Standards

1. This Statement on Auditing Standards (SAS) addresses the auditor's responsibility when the auditor is requested to report on an entity's compliance with aspects of contractual agreements or regulatory requirements, insofar as they relate to accounting matters, in connection with an audit of financial statements (referred to hereinafter as a report on compliance). Such a report is commonly referred to as a by-product report. (Ref: par. A1–A2)

2. Entities may be required by contractual agreements, such as certain bond indentures and loan agreements, or regulatory agencies to provide an auditor's report on compliance. For example, loan agreements may impose a variety of obligations on borrowers involving matters such as payments into sinking funds, payments of interest, maintenance of current ratios, and restrictions of dividend payments. Loan agreements may also require the borrower to provide annual financial statements that have been audited. In some instances, the lenders or their trustees may request the auditor to report that the borrower has complied with certain covenants of the agreement relating to accounting matters. The auditor may satisfy this request by issuing a report on compli-

ance in accordance with the requirements of this SAS.

3. As described in paragraph 1, this SAS addresses reporting on an entity's compliance with aspects of contractual agreements or regulatory requirements in connection with an audit of financial statements. When the auditor is engaged or required by law or regulation to perform a compliance audit in accordance with generally accepted auditing standards (GAAS), the standards for financial audits under *Government Auditing Standards*, and a governmental audit requirement that requires the auditor to express an opinion on compliance with applicable compliance requirements, AU section 801, *Compliance Audits* (AICPA, *Professional Standards*), applies.

4. When the auditor is engaged to perform a separate attest engagement on (a) an entity's compliance with requirements of specific laws, regulations, rules, contracts, or grants or (b) the effectiveness of an entity's internal control over compliance with specified requirements, AT section 601, *Compliance Attestation* (AICPA, *Professional Standards*), applies.

Effective Date

5. This SAS is effective for reports on compliance issued in connection with audits of financial statements for periods ending on or after December 15, 2012.

OBJECTIVE

6. The objective of the auditor is to report appropriately on an entity's compliance with aspects of contractual agreements or regulatory requirements, in connection with the audit of financial statements, when the auditor is requested to report on such matters.

REQUIREMENTS

Reports on Compliance With Aspects of Contractual Agreements or Regulatory Requirements

7. The auditor's report on compliance should include a statement that nothing came to the auditor's attention that caused the auditor to believe that the entity failed to comply with specified aspects of the contractual agreements or regulatory requirements, insofar as they relate to accounting matters, only when

- the auditor has not identified any instances of noncompliance,
- the auditor has expressed an unmodified or qualified opinion on the financial statements to which the applicable covenants of such contractual agreements or regulatory requirements relate, and
- the applicable covenants or regulatory requirements relate to accounting matters that have been subjected to the audit procedures applied in the audit of financial statements.

8. When the auditor has identified one or more instances of noncompliance, the report on compliance should describe such noncompliance (see paragraphs 12(f) and 13(b)).

9. When the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor should issue a report on compliance only when instances of noncompliance are identified. Therefore, the requirement in paragraph 8 also applies in such circumstances. The auditor should modify the wording of the report on compliance, as appropriate to the circumstances. (Ref: par. A3)

10. Notwithstanding the requirements in paragraphs 7–9, the auditor is not precluded from issuing a report on compliance if such report is required by another set of auditing standards (for example, *Government Auditing Standards*), and the auditor has been engaged to audit the financial statements in accordance with both GAAS and those other standards.

11. The report on compliance should be in writing and should be provided

Copyright © 2011. American Institute of Certified Public Accountants, Inc. New York, NY 10036-8775. All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please visit www.copyright.com or call 978-750-8400.

either in a separate report (see paragraph 12) or in one or more paragraphs included in the auditor's report on the financial statements (see paragraph 13).

Separate Report on Compliance With Aspects of Contractual Agreements or Regulatory Requirements

12. When the auditor reports on compliance in a separate report, the report should include the following:

- a. A title that includes the word *independent* to clearly indicate that it is the report of an independent auditor.
- b. An appropriate addressee.
- c. A paragraph that states that the financial statements were audited in accordance with generally accepted auditing standards and an identification of the United States of America as the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards) and the date of the auditor's report on those financial statements.
- d. If the auditor expressed a modified opinion¹ on the financial statements, a statement describing the nature of the modification. (Ref: par. A4)
- e. When no instances of noncompliance are identified by the auditor, a reference to the specific covenants or paragraphs of the contractual agreement or regulatory requirement and a statement that nothing came to the auditor's attention that caused the auditor to believe that the entity failed to comply with specified aspects of the contractual agreements or regulatory requirements, insofar as they relate to accounting matters (see paragraphs 7 and 10).
- f. When instances of noncompliance are identified by the auditor, a reference to the specific covenants or paragraphs of the contractual agreement or regulatory requirement, insofar as they relate to accounting matters, and a description of the identified instances of noncompliance. (Ref: par. A5)
- g. A statement that the report is being provided in connection with the audit of the financial statements.
- h. A statement that the audit was not directed primarily toward obtaining knowledge regarding compliance, and accordingly, had the auditor performed additional procedures, other matters may have come to the auditor's attention regarding noncompliance with the specific covenants or paragraphs of the contractual agreement or regulatory requirement, insofar as they relate to accounting matters.
- i. A paragraph that includes a description and the source of significant interpretations, if any, made by the entity's management relating to the provisions of the relevant contractual agreement or regulatory requirement.
- j. A paragraph that restricts the use² of the report to management, those charged with governance, others within the organization, the regulatory agency responsible for the provisions, or other parties to the contract or agreement. (Ref: par. A6–A7)
- k. The manual or printed signature of the auditor's firm and the city and state where the auditor practices.
- l. The date of the report, which should be the same date as the auditor's report on the financial statements.³

Report on Compliance With Aspects of Contractual Agreements or Regulatory Requirements Included in the Auditor's Report

13. When a report on compliance is included in the auditor's report on the financial statements, the auditor's report should include an other-matter paragraph⁴ that includes a reference to the specific covenants or paragraphs of the contractual agreement or regulatory requirement, insofar as they relate to accounting matters, and also should include the following:

- a. When no instances of noncompliance are identified by the auditor, a statement that nothing came to the auditor's attention that caused the auditor

to believe that the entity failed to comply with specified aspects of the contractual agreements or regulatory requirements, insofar as they relate to accounting matters (see paragraphs 7 and 10).

- b. When instances of noncompliance are identified by the auditor, a description of the identified instances of noncompliance. (Ref: par. A5)
- c. A statement that the communication is being provided in connection with the audit of the financial statements.
- d. A statement that the audit was not directed primarily toward obtaining knowledge regarding compliance, and accordingly, had the auditor performed additional procedures, other matters may have come to the auditor's attention regarding noncompliance with the specific covenants or paragraphs of the contractual agreement or regulatory requirement, insofar as they relate to accounting matters.
- e. A paragraph that includes a description and the source of significant interpretations, if any, made by the entity's management relating to the provisions of the relevant contractual agreement or regulatory requirement.
- f. A paragraph that restricts the use⁵ of the report to management, those charged with governance, others within the organization, the regulatory agency responsible for the provisions, or other parties to the contract or agreement. (Ref: par. A6–A7)

APPLICATION AND OTHER EXPLANATORY MATERIAL

Scope of This SAS (Ref: par. 1)

A1. The financial statements being audited and to which the applicable covenants of the contractual agreements or regulatory requirements relate may be either general purpose or special purpose financial statements.

Considerations Specific to Governmental Entities

A2. For most state or local governmental entities, the applicable financial reporting framework is based on multiple reporting units and, therefore, requires the presentation of financial statements for its activities in various reporting units. Consequently, a reporting unit or aggregation of reporting units of the governmental entity represents an opinion unit to the auditor. In the context of this SAS, the auditor is responsible for reporting on compliance for each opinion unit within a governmental entity, when requested.

Reports on Compliance With Aspects of Contractual Agreements or Regulatory Requirements (Ref: par. 9)

A3. Illustration 4 in the exhibit provides an example of the wording of the report on compliance when the auditor has disclaimed an opinion on the financial statements.

Separate Report on Compliance With Aspects of Contractual Agreements or Regulatory Requirements (Ref: par. 12(d))

A4. The auditor may include certain additional communications in the separate report on compliance when the auditor included such additional communications in the auditor's report on the financial statements⁶ that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time,⁷ the auditor may also include this in the separate report on compliance.

Reporting When Instances of Noncompliance Are Identified (Ref: par. 12(f) and 13(b))

A5. When instances of noncompliance are identified, and the entity has obtained a waiver for such noncompliance, the auditor may include a state-

1. See the clarified Statement on Auditing Standards (SAS) *Modifications to the Opinion in the Independent Auditor's Report*.

2. See AU section 532, *Restricting the Use of an Auditor's Report* (AICPA, Professional Standards). This reference will be revised when AU section 532 is redrafted for clarity as part of the Clarification and Convergence project of the Auditing Standards Board.

3. Paragraph 41 of the clarified SAS *Forming an Opinion and Reporting on Financial Statements*.

4. See the clarified SAS *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* for guidance on other-matter paragraphs.

5. See footnote 2.

6. See the clarified SAS *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

7. See AU section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, Professional Standards). This reference will be revised when AU section 341 is redrafted for clarity; convergence with International Standard on Auditing 570, *Going Concern*; and consideration of Financial Accounting Standards Board action.

ment in the report on compliance that a waiver has been obtained. The determination of whether to include such a statement is based on the procedures performed by the auditor to evaluate the waiver for the purposes of obtaining sufficient appropriate audit evidence in connection with the audit of the financial statements. All instances of noncompliance are required to be described in the report on compliance, in accordance with paragraph 8, including those for which a waiver has been obtained.

Restrictions on the Use of the Auditor's Report⁸ (Ref: par. 12(j) and 13(f))

A6. A restriction on the use of the report on compliance to the specified parties, as discussed in paragraphs 12(j) and 13(f), is necessary because the basis, assumptions, or purpose of the provisions in contractual agreements or regulatory requirements to which the report on compliance relates are developed for, and directed only to, the parties to the contractual agreement or the regulatory agency responsible for the requirements.

A7. If the auditor's report on compliance is included in the auditor's report on the financial statements, the restriction on the use of the report on compliance to specified parties, as required by paragraph 13(f), would apply to the entire auditor's report. If a separate report is issued, as described in paragraph 11, then only the report on compliance need be restricted as to use by the specified parties.

A8.

EXHIBIT: ILLUSTRATIONS OF REPORTS ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS OR REGULATORY REQUIREMENTS IN CONNECTION WITH AUDITED FINANCIAL STATEMENTS (REF: PAR. 12-13)

Illustration 1: A Report on Compliance With Aspects of Contractual Agreements Provided in a Separate Report When No Instances of Noncompliance Are Identified

Illustration 2: A Report on Compliance With Aspects of Contractual Agreements Provided in a Separate Report When Instances of Noncompliance Are Identified

Illustration 3: A Report on Compliance With Aspects of Contractual Agreements Provided in a Separate Report When Instances of Noncompliance Are Identified, and a Waiver Has Been Obtained

Illustration 4: A Report on Compliance With Aspects of Contractual Agreements Provided in a Separate Report When Instances of Noncompliance Are Identified, and the Auditor Has Disclaimed an Opinion on the Financial Statements

Illustration 1: A Report on Compliance With Aspects of Contractual Agreements Provided in a Separate Report When No Instances of Noncompliance Are Identified

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of XYZ Company, which comprise the balance sheet as of December 31, 20X2, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 16, 20X3.

In connection with our audit, nothing came to our attention that caused us to believe that XYZ Company failed to comply with the terms, covenants, provisions, or conditions of sections XX to YY, inclusive, of the Indenture dated July 21, 20X0, with ABC Bank, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Company's noncompliance with the above-referenced terms, covenants, provisions, or condi-

tions of the Indenture, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of directors and management of XYZ Company and ABC Bank and is not intended to be and should not be used by anyone other than these specified parties.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Illustration 2: A Report on Compliance With Aspects of Contractual Agreements Provided in a Separate Report When Instances of Noncompliance Are Identified

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of XYZ Company, which comprise the balance sheet as of December 31, 20X2, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 20X3.

In connection with our audit, we noted that XYZ Company failed to comply with the "Working Capital" provision of section XX of the Loan Agreement dated March 1, 20X2, with ABC Bank. Our audit was not directed primarily toward obtaining knowledge as to whether XYZ Company failed to comply with the terms, covenants, provisions, or conditions of sections XX to YY, inclusive, of the Loan Agreement, insofar as they relate to accounting matters. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Loan Agreement, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of directors and management of XYZ Company and ABC Bank and is not intended to be and should not be used by anyone other than these specified parties.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Illustration 3: A Report on Compliance With Aspects of Contractual Agreements Provided in a Separate Report When Instances of Noncompliance Are Identified, and a Waiver Has Been Obtained

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of XYZ Company, which comprise the balance sheet as of December 31, 20X2, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 20X3.

In connection with our audit, we noted that XYZ Company failed to comply with the "Working Capital" provision of section XX of the Loan Agreement dated March 1, 20X2, with ABC Bank. The Company has received a waiver dated February 5, 20X3, from ABC Bank. Our audit was not directed primarily toward obtaining knowledge as to whether XYZ Company failed to comply with the terms, covenants, provisions, or conditions of sections XX to YY, inclusive, of the Loan Agreement, insofar as they relate to accounting matters. Accordingly, had we performed additional procedures, other matters may have

8. See footnote 2.

come to our attention regarding noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Loan Agreement, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of directors and management of XYZ Company and ABC Bank and is not intended to be and should not be used by anyone other than these specified parties.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Illustration 4: A Report on Compliance With Aspects of Contractual Agreements Provided in a Separate Report When Instances of Noncompliance Are Identified, and the Auditor Has Disclaimed an Opinion on the Financial Statements

Independent Auditor's Report

[Appropriate Addressee]

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the financial statements of XYZ Company, which comprise the balance sheet as of December 31, 20X2, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 20X3. Our report disclaims an opinion on such financial statements because of [describe the scope limitation or matter causing the disclaimer].

In connection with our engagement, we noted that XYZ Company failed to comply with the "Working Capital" provision of section XX of the Loan Agreement dated March 1, 20X2, with ABC Bank. Our engagement was not directed primarily toward obtaining knowledge as to whether XYZ Company failed to comply with the terms, covenants, provisions, or conditions of sections XX to YY, inclusive, of the Loan Agreement, insofar as they relate to accounting matters. Accordingly, had we been able to complete the audit, other matters may have come to our attention regarding noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Loan Agreement, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of directors and management of XYZ Company and ABC Bank and is not intended to be and should not be used by anyone other than these specified parties.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Statement on Auditing Standards—Letters for Underwriters and Certain Other Requesting Parties (Redrafted)

Statement on Auditing Standards (SAS) Letters for Underwriters and Certain Other Requesting Parties (Redrafted) supersedes SAS No. 72, Letters for Underwriters and Certain Other Requesting Parties (AICPA, Professional Standards, AU sec. 634)

Copyright © 2011. American Institute of Certified Public Accountants, Inc. New York, NY 10036-8775. All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please e-mail copyright@aicpa.org with your request. Otherwise, requests should be written and mailed to the Permissions Department, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.

CONTENTS

Introduction

Scope of This Statement on Auditing Standards/1–4

Effective Date/5

Objectives/6

Definitions/7–8

Requirements

Engagement Acceptance/9–14

Agreeing Upon the Scope of Services/15–23

Format and Contents of Comfort Letters/24–40

Commenting in a Comfort Letter on Information Other Than Audited

Financial Statements/41–75

Application and Other Explanatory Material

Definitions/A1

Engagement Acceptance/A2–A7

Agreeing Upon the Scope of Services/A8–A23

Format and Contents of Comfort Letters/A24–A43

Commenting in a Comfort Letter on Information Other Than Audited

Financial Statements/A44–A90

Exhibit A: Illustration of Representation Letter From Requesting Party/A91

Exhibit B: Examples of Comfort Letters/A92

Exhibit C: Commenting in a Comfort Letter on Quantitative

Disclosures About Market Risk Made in Accordance With Item 305 of Regulation S-K/A93

INTRODUCTION

Scope of This Statement on Auditing Standards

1. This Statement on Auditing Standards (SAS) addresses the auditor's responsibilities when engaged to issue letters (commonly referred to as *comfort letters*) to requesting parties in connection with a nonissuer entity's financial statements included in registration statements filed with the Securities and Exchange Commission (SEC) under the Securities Act of 1933 (the 1933 Act) (for example, inclusion of the nonissuer entity's financial statements as required by either Rule 3-05 or 3-09 of Regulation S-X) or included in other securities offerings.

2. Auditors' services include audits or reviews of financial statements included in securities offerings. In connection with the securities offerings, auditors are often requested to issue comfort letters to certain requesting parties. The auditor is not required by generally accepted auditing standards (GAAS) to accept an engagement to issue a comfort letter.

3. The service of providing letters for underwriters developed following the passing of the 1933 Act. Section 11 of the 1933 Act provides that underwriters, among others, could be liable if any part of a registration statement contains material omissions or misstatements. The 1933 Act also provides for an affirmative defense for underwriters if it can be demonstrated that, after a reasonable investigation, the underwriter has reasonable grounds to believe that no material omissions or misstatements existed in a securities offering. An auditor issuing a comfort letter is one of a number of procedures that may be used to establish that an underwriter has conducted a reasonable investigation. Consequently, underwriters may request auditors to assist them in developing a record of reasonable investigation.

4. The subjects that may be covered in a comfort letter include

- the independence of the auditor.
- whether the audited financial statements included in the securities offering comply regarding form, in all material respects, with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC.
- unaudited financial statements, condensed interim financial information, capsule financial information, pro forma financial information, financial forecasts, management's discussion and analysis (MD&A), and changes in selected financial statement items during a period subsequent to the date and period of the latest financial statements included in the securities offering.
- tables, statistics, and other financial information included in the securities

offering.

- negative assurance about whether certain nonfinancial statement information included in the securities offering complies regarding form, in all material respects, with Regulation S-K.¹

Effective Date

5. This SAS is effective for comfort letters issued on or after December 15, 2012.

OBJECTIVES

6. The objectives of the auditor, when engaged to issue a letter to a requesting party in connection with an entity's financial statements included in a securities offering, are to

- a. address appropriately the acceptance of the engagement and the scope of services; and
- b. issue a letter with the appropriate form and content.

DEFINITIONS

7. For purposes of this SAS, the following terms have the meanings attributed as follows:

Capsule financial information. Unaudited summarized interim financial information for periods subsequent to the periods covered by the audited financial statements or unaudited interim financial information included in the securities offering. Capsule financial information may be presented in narrative or tabular form and is often provided for the most recent interim period and for the corresponding period of the prior year.

Change period. The period ending on the cut-off date and ordinarily beginning, for balance sheet items, immediately after the date of the latest balance sheet in the securities offering and, for income statement items, immediately after the latest period for which such items are presented in the securities offering.

Closing date. The date on which the issuer of the securities or selling security holder delivers the securities to the underwriter in exchange for the proceeds of the offering.

Comfort letter. A letter issued by an auditor in accordance with this SAS to requesting parties in connection with an entity's financial statements included in a securities offering.

Comparison date and comparison period. The date as of which, and period for which, data at the cut-off date and data for the change period are to be compared.

Cut-off date. The date through which certain procedures described in the comfort letter are to relate.

Effective date. The date on which the securities offering becomes effective.

Entity. The party whose financial statements are the subject of the engagement.

Negative assurance. A statement that, based on the procedures performed, nothing has come to the auditor's attention that caused the auditor to believe that specified matters do not meet specified criteria (for example, that nothing came to the auditor's attention that caused the auditor to believe that any material modifications should be made to the unaudited interim financial information for it to be in accordance with generally accepted accounting principles).

Requesting party. One of the following specified parties requesting a comfort letter, which has negotiated an agreement with the entity:

- An underwriter
- Other parties that are conducting a review process that is, or will be, substantially consistent with the due diligence process performed when the securities offering is, or if the securities offering was, being registered pursuant to the 1933 Act, as follows:
 - A selling shareholder, sales agent, or other party with a statutory due diligence defense under Section 11 of the 1933 Act
 - A broker-dealer or other financial intermediary acting as principal or agent in a securities offering in connection with the following types of securities offerings:

- Foreign offerings, including Regulation S, Eurodollar, and other offshore offerings
- Transactions that are exempt from the registration requirements of Section 5 of the 1933 Act, including those pursuant to Regulation A, Regulation D, and Rule 144A
- Offerings of securities issued or backed by governmental, municipal, banking, tax-exempt, or other entities that are exempt from registration under the 1933 Act
- The buyer or seller in connection with acquisition transactions in which there is an exchange of stock (Ref: par. A1)

Securities offerings. One of the following types of securities offerings:

- Registration of securities with the SEC under the 1933 Act
- Foreign offerings, including Regulation S, Eurodollar, and other offshore offerings
- Transactions that are exempt from the registration requirements of Section 5 of the 1933 Act, including those pursuant to Regulation A, Regulation D, and Rule 144A
- Offerings of securities issued or backed by governmental, municipal, banking, tax-exempt, or other entities that are exempt from registration under the 1933 Act
- Acquisition transactions in which there is an exchange of stock

Underwriter. As defined in the 1933 Act

any person who has purchased from an issuer with a view to, or offers or sells for an issuer in connection with, the distribution of any security, or participates or has a direct or indirect participation in any such undertaking, or participates or has a participation in the direct or indirect underwriting of any such undertaking; but such term shall not include a person whose interest is limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors' or sellers' commission. As used in this paragraph, the term "issuer" shall include, in addition to an issuer, any person directly or indirectly controlling or controlled by the issuer, or any person under direct or indirect common control with the issuer.

Except when the context otherwise requires, the word *underwriter*, as used in this SAS, refers to the managing, or lead, underwriter, who typically negotiates the underwriting agreement or purchase agreement (hereafter referred to as the *underwriting agreement*) for a group of underwriters whose exact composition is not determined until shortly before a securities offering becomes effective.

8. References in this SAS to information that is *included* in a document are to be read to also encompass information that is *incorporated by reference* in that document.

REQUIREMENTS

Engagement Acceptance

9. The auditor should determine whether to accept an engagement to issue a comfort letter in connection with financial statements included in a securities offering. The auditor is not required to accept such an engagement.

10. The auditor should provide a comfort letter in connection with financial statements included in a securities offering only to

- a. underwriters.
 - b. other parties meeting the definition of a *requesting party* in paragraph 7.
11. The auditor should request the requesting party to provide either
- a. a written opinion from external legal counsel that the requesting party has a statutory due diligence defense under Section 11 of the 1933 Act; or
 - b. a representation letter that
 - i. is addressed to the auditor;
 - ii. contains the statement, "The review process applied to the information relating to the issuer, is, or will be, substantially consistent with the due diligence process that we would perform if this securities offering were being registered pursuant to the Securities Act of 1933. We are knowledgeable with respect to that due diligence process."; and (Ref: par. A3–A4)
 - iii. is signed by the requesting party.

12. If a requesting party, other than an underwriter, requests a comfort letter

1. Regulation S-K, "Standard Instructions for Filing Forms Under Securities Act of 1933, Securities Exchange Act of 1934 and Energy Policy and Conservation Act of 1975."

but does not provide the legal opinion or representation letter described in paragraph 11, the auditor should not provide negative assurance on the financial statements as a whole, or on any of the specified elements, accounts, or items thereof. In such circumstances, the comfort letter should include the following statements: (Ref: par. A5)

- a. It should be understood that we have no responsibility for establishing (and did not establish) the scope and nature of the procedures enumerated in the preceding paragraphs; rather, the procedures enumerated therein are those that the requesting party asked us to perform. Accordingly, we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraphs; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages previously listed as set forth in the [offering circular]. Further, we have addressed ourselves solely to the foregoing data and make no representations regarding the adequacy of disclosures or whether any material facts have been omitted. This letter relates only to the financial statement items previously specified and does not extend to any financial statement of the company as a whole. (Ref: par. A6)
 - b. The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Had we performed additional procedures or had we conducted an audit or a review of the company's [give dates of any interim financial statements] consolidated financial statements in accordance with auditing standards generally accepted in the United States of America, other matters might have come to our attention that would have been reported to you.
 - c. These procedures should not be taken to supplant any additional inquiries or procedures that you would undertake in your consideration of the proposed offering.
 - d. This letter is solely for your information and to assist you in your inquiries in connection with the offering of the securities covered by the [offering circular]. It is not to be used, circulated, quoted, or otherwise referred to for any other purpose, including but not limited to, the registration, purchase, or sale of securities, nor is it to be filed with or referred to in whole or in part in the offering document or any other document, except that reference may be made to it in any list of closing documents pertaining to the offering of the securities covered by the offering document.
 - e. We have no responsibility to update this letter for events and circumstances occurring after [cut-off date].
13. The auditor should not provide a comfort letter to any parties other than a requesting party as defined in this SAS. (Ref: par. A7)
14. When issuing a letter in accordance with this SAS, the auditor should not circumvent the requirements of this SAS by issuing any additional letters or reports to a requesting party in connection with the securities offering in which the auditor comments on items for which commenting is otherwise precluded by this SAS.

Agreeing Upon the Scope of Services

15. The auditor should obtain an understanding of the specific matters to be addressed in the comfort letter. (Ref: par. A8)
16. The auditor should ask to meet with the requesting party and the entity to discuss the procedures to be followed in connection with an engagement to issue a comfort letter. (Ref: par. A9–A10)
17. The auditor should clearly state in any discussion of procedures that the auditor cannot provide any assurance regarding the sufficiency of the procedures for the requesting party's purposes. (Ref: par. A11–A14)
18. The auditor should provide a draft of the form of the letter the auditor expects to furnish. To the extent possible, the draft should deal with all matters to be covered in the final letter and should use exactly the same terms as those to be used in the final letter, subject to the understanding that the comments in the final letter cannot be determined until the procedures underlying it have been performed. The draft letter should be identified as a draft to avoid giving the impression that the procedures described therein have been performed. (Ref: par. A15)
19. In both the draft and final forms of the comfort letter, the auditor should

clearly describe the procedures performed by the auditor. The auditor should not state or imply that the auditor is carrying out such procedures as the auditor considers necessary because such statements or implications may lead to misunderstanding about the responsibility for the sufficiency of the procedures for the requesting party purposes.

20. If the auditor has been unable to have a discussion with the requesting party about the auditor's planned procedures, the auditor should describe in the draft letter those procedures specified in the draft underwriting agreement that the auditor is willing to perform. (Ref: par. A16–A17)
21. When the comfort letter relates to group financial statements, the auditor of the group financial statements should read the comfort letters of the component auditors reporting on significant components. The auditor should state in the comfort letter that
 - a. reading the component auditors' letters was one of the procedures followed, and
 - b. the procedures, other than reading the component auditors' letters, performed by the auditor of the group financial statements, relate solely to entities audited by the auditor of the group financial statements and to the group financial statements. (Ref: par. A18)
22. When comfort letters are requested from more than one auditor, the requirements of this SAS apply to each auditor. (Ref: par. A19)
23. In competitive bidding situations in which legal counsel for the requesting party acts as the requesting party's representative prior to opening and acceptance of the bid, the auditor should carry out the discussions and other communications required by this SAS with the legal counsel until the requesting party is selected. In such circumstances, the auditor should not agree to provide a comfort letter addressed to the entity, legal counsel, or a nonspecific addressee, such as "any or all underwriters to be selected." If the auditor agrees to provide a draft comfort letter, the draft comfort letter should include a legend describing the letter's purpose and limitations. (Ref: par. A20–A23)

Format and Contents of Comfort Letters

Dating

24. The letter should state that the inquiries and other procedures described in the letter did not cover the period from the cut-off date to the date of the letter. (Ref: par. A24–A25)
25. When an additional letter, dated at or shortly before the closing date, is requested, the auditor should carry out the specified procedures and inquiries as of the cut-off date for each letter. The subsequent letter should relate only to information in the securities offering as most recently amended. (Ref: par. A26)

Addressee

26. The letter should be addressed only to the requesting party, or both the requesting party and the entity, and should not be provided to any other parties. (Ref: par. A27)

Introductory Paragraph

27. The letter should contain an introductory paragraph that identifies the financial statements and the securities offering.

Auditor's Report

28. The auditor should, in the comfort letter, make reference to, but not repeat, the report on the audited financial statements included in the securities offering. (Ref: par. A28)
29. When the auditor's report on the audited financial statements included in the securities offering contains an emphasis-of-matter or other-matter paragraph addressing matters other than consistency of application of accounting policies,² the auditor should refer to that fact in the comfort letter and discuss the subject matter of the paragraph. In those instances in which the SEC accepts a modified opinion on historical financial statements, the auditor should refer

2. See the clarified Statement on Auditing Standards (SAS) *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

to the modification in the opening paragraph of the comfort letter and discuss the subject matter of the modification. (Ref: par. A29–A30)

30. The auditor should not provide negative assurance regarding the auditor's report or regarding financial statements that have been audited and are reported on in the securities offering by other auditors. (Ref: par. A31)

31. In the introductory paragraph of the comfort letter, if the auditor refers to reports that the auditor has previously issued other than the report on the audited financial statements included in the securities offering, the auditor should not repeat the reports in the comfort letter or otherwise imply that the auditor is reporting as of the date of the comfort letter or assuming responsibility for the sufficiency of the procedures for the requesting party's purposes. (Ref: par. A32–A33)

32. The auditor should not mention in a comfort letter reports issued in accordance with the clarified SAS *Communicating Internal Control Related Matters Identified in an Audit*, or any restricted use reports issued to the entity in connection with procedures performed on the entity's internal control over financial reporting in accordance with AT section 501, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements* (AICPA, Professional Standards).

33. The auditor should not refer to, or attach, any restricted use report to the comfort letter. (Ref: par. A34)

Representations

34. The auditor should refer in the comfort letter to the requesting party's representations when the representation letter described in paragraph 11 has been provided. (Ref: par. A35)

Independence

35. The auditor should state in the comfort letter that the auditor is independent, or the date through which the auditor was independent, with respect to the entity, and identify the applicable independence rules. (Ref: par. A36–A38)

Compliance With SEC Requirements

36. If the auditor is requested to include an opinion in the comfort letter on whether the financial statements covered by the auditor's report comply as to form with the pertinent accounting requirements adopted by the SEC, the auditor's opinion should refer to compliance as to form, in all material respects, with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC. (Ref: par. A39–A41)

37. Certain financial statements may be incorporated in a registration statement under the 1933 Act by reference to filings under the Securities Exchange Act of 1934 (the 1934 Act). If the auditor is requested to include an opinion in the comfort letter on whether the financial statements covered by the auditor's report comply as to form with the pertinent accounting requirements adopted by the SEC, the auditor's opinion should refer to whether the audited financial statements incorporated by reference in the registration statement comply as to form, in all material respects, with the applicable accounting requirements of the 1934 Act and the related rules and regulations adopted by the SEC. However, the auditor should not opine on compliance with the provisions of the 1934 Act regarding internal control over financial reporting.

38. If the auditor has been requested to include an opinion in the comfort letter on whether the financial statements covered by the auditor's report comply as to form with the pertinent accounting requirements adopted by the SEC, and a material departure from the pertinent rules and regulations adopted by the SEC exists, the auditor should disclose the departure in the comfort letter. (Ref: par. A42)

39. The auditor should express an opinion on compliance as to form with requirements under the rules and regulations adopted by the SEC only with respect to those rules and regulations applicable to the form and content of financial statements that the auditor has audited. When the financial statements or financial statement schedules have not been audited, the auditor is limited to providing negative assurance on compliance as to form.

40. The auditor should not comment in a comfort letter on compliance as to form of MD&A with rules and regulations adopted by the SEC. (Ref: par. A43)

Commenting in a Comfort Letter on Information Other Than Audited Financial Statements

General

41. When commenting in a comfort letter on information other than audited financial statements, the auditor should

- describe the procedures performed by the auditor, as required by paragraph 19. (Ref: par. A44–A46)
- describe the criteria specified by the requesting party.
- state that the procedures performed with respect to interim periods may not disclose matters of significance regarding certain matters about which negative assurance is requested. (Ref: par. A47–A48)

42. The auditor should not, in the comfort letter

- make any statements, or imply, that the auditor has applied procedures that the auditor determined to be necessary or sufficient for the requesting party's purposes.
- use terms of uncertain meaning (such as *general review*, *limited review*, *reconcile*, *check*, or *test*) in describing the work unless the procedures encompassed by these terms are described in the comfort letter.
- make a statement that nothing else has come to the auditor's attention that would be of interest to the requesting party as a result of carrying out the specified procedures. (Ref: par. A49)

43. When the report on the audited financial statements in the securities offering is a modified report, the auditor should consider the effect on providing negative assurance in the comfort letter regarding subsequent interim financial information included in the securities offering or regarding an absence of specified subsequent changes. The auditor should also follow the requirements of paragraph 29. (Ref: par. A50)

Knowledge of Internal Control

44. The auditor should obtain an understanding of the entity's internal control over financial reporting for both annual and interim periods when commenting in a comfort letter on

- unaudited interim financial information, including unaudited condensed interim financial information;
- capsule financial information;
- a financial forecast when historical financial statements provide a basis for one or more significant assumptions for the forecast; or
- subsequent changes in specified financial statement items. (Ref: par. A51)

Unaudited Interim Financial Information

45. The auditor should provide negative assurance on unaudited interim financial information included in the securities offering only if the auditor has conducted a review of the interim financial information in accordance with GAAS applicable to reviews of interim financial information. If the auditor has not conducted a review in accordance with GAAS applicable to reviews of interim financial information, the auditor is limited to reporting procedures performed and findings obtained. (Ref: par. A52)

46. The negative assurance provided regarding such unaudited interim information should be about whether

- any material modifications should be made to the unaudited interim financial information for it to be in accordance with the applicable financial reporting framework, and
- the unaudited interim financial information complies as to form in all material respects with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC, if applicable.

47. If the auditor states in the comfort letter that the auditor has performed a review of the unaudited interim financial information, the auditor should attach the review report to the letter unless the review report is already included in the securities offering. (Ref: par. A53)

48. The auditor should specifically identify, in the comfort letter, any unaudited interim financial information and should state that the auditor has not audited the interim financial information in accordance with GAAS and does not express an opinion concerning such information. (Ref: par. A54–A55)

49. When the auditor is requested by the requesting party to provide nega-

tive assurance on the unaudited interim financial information, or information extracted therefrom, for a monthly period ending after the latest financial statements included in the securities offering, the requirements in paragraphs 45–48 apply. In such a circumstance, a copy of the unaudited interim financial information should be attached to the comfort letter.

Capsule Financial Information

50. The auditor should not provide negative assurance regarding whether the selected capsule financial information is in accordance with the applicable financial reporting framework unless

- a. the auditor has performed a review of the financial statements underlying the capsule financial information in accordance with GAAS applicable to reviews of interim financial information, and
- b. the selected capsule financial information is in accordance with minimum disclosure requirements of the applicable financial reporting framework for interim financial information.

If these conditions have not been met, the auditor is limited to reporting procedures performed and findings obtained. (Ref: par. A56)

51. The auditor should not provide negative assurance on selected capsule financial information regarding whether the dollar amounts were determined on a basis substantially consistent with that of the corresponding amounts in the audited financial statements unless the auditor has performed a review of the financial statements underlying the capsule financial information in accordance with GAAS applicable to reviews of interim financial information. Otherwise, the auditor is limited to reporting procedures performed and findings obtained. (Ref: par. A57)

Pro Forma Financial Information

52. The auditor should not comment in a comfort letter on pro forma financial information unless the auditor has an appropriate level of knowledge of the accounting and financial reporting practices of the entity. (Ref: par. A58)

53. The auditor should not provide negative assurance in a comfort letter on pro forma financial information, including negative assurance on

- the application of pro forma adjustments to historical amounts,
- the compilation of pro forma financial information, or
- whether the pro forma financial information complies as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X,³

unless the auditor has obtained the required knowledge described in paragraph 52 and has performed

- a. an audit of the annual financial statements, or
- b. a review, in accordance with GAAS applicable to reviews of interim financial information,

of the interim financial information of the entity (or, in the case of a business combination, of a significant constituent part of the combined entity) to which the pro forma adjustments were applied. If these conditions are not met, the auditor is limited to reporting procedures performed and findings obtained. (Ref: par. A59)

Financial Forecasts

54. When performing procedures agreed to with the requesting party on a financial forecast and commenting thereon in a comfort letter, the auditor should

- a. obtain an understanding of the entity's internal control over financial reporting for both annual and interim periods, as required by paragraph 44;
- b. perform procedures required by paragraph .69 of AT section 301, *Financial Forecasts and Projections* (AICPA, *Professional Standards*), for reporting on the compilation of a forecast;
- c. issue a report on the compilation of prospective financial information in accordance with paragraphs .18–19 of AT section 301 and attach the report thereon to the comfort letter; and
- d. perform additional procedures as requested by the requesting party and report the findings in the comfort letter. (Ref: par. A60–A61)

55. The auditor should not provide negative assurance on the results of procedures performed on a financial forecast.

56. The auditor should not provide negative assurance with respect to compliance of the financial forecast with Rule 11-03 of Regulation S-X unless the auditor has performed an examination of the financial forecast in accordance with AT section 301.

57. If the financial forecast is included in the securities offering, the auditor should not issue a comfort letter unless the financial forecast is accompanied by an indication that the auditor has not examined the financial forecast and, therefore, does not express an opinion on it. (Ref: par. A62)

Subsequent Changes

58. The auditor should base comments regarding subsequent changes in specified financial statement items solely on the limited procedures performed with respect to the change period as determined by the requesting party. (Ref: par. A63–A65)

59. The auditor should provide negative assurance in the comfort letter regarding subsequent changes in specified financial statement items only as of a date less than 135 days from the end of the most recent period for which the auditor has performed an audit or a review. (Ref: par. A66)

60. When the requesting party requests negative assurance regarding subsequent changes in specified financial statement items as of a date 135 days or more from the end of the most recent period for which the auditor has performed an audit or a review, the auditor is limited to reporting procedures performed and findings obtained.

61. In commenting on subsequent changes, the auditor should not characterize subsequent changes using ambiguous terms, such as referring to the change as “adverse.” The auditor should note in the comfort letter if there has been a change in the application of the requirements of the applicable financial reporting framework. (Ref: par. A67–A68)

62. The auditor should comment only on the occurrence of subsequent changes in specified financial statement items that are not disclosed in the securities offering. Accordingly, the auditor should include the phrase *except for changes, increases, or decreases that the securities offering discloses have occurred or may occur* in the comfort letter when it has come to the auditor's attention that a change, increase, or decrease has occurred during the change period, and the amount of such change, increase, or decrease is disclosed in the securities offering. This phrase need not be included in the letter when no changes, increases, or decreases in the specified financial statement items are disclosed in the securities offering. (Ref: par. A69–A70)

63. The auditor should identify in the comfort letter in both draft and final form the dates as of which, and periods for which, data at the cut-off date and data for the change period are to be compared, whether or not specified in the underwriting agreement. (Ref: par. A71–A72)

64. If the requesting party requests the use of a change period or periods other than those described in paragraph 7, the auditor should explain to the requesting party the implications of using an earlier date. If the requesting party, nonetheless, requests the use of a change period or periods other than those described in paragraph 7, the auditor is permitted to use the period or periods requested. (Ref: par. A73)

Tables, Statistics, and Other Financial Information

65. The auditor should not comment in a comfort letter on tables, statistics, and other financial information appearing in the securities offering unless the information

- a. is expressed in dollars (or percentages derived from such dollar amounts) and has been obtained from accounting records that are subject to internal control over financial reporting, or
- b. has been derived directly from such accounting records by analysis or computation. (Ref: par. A74)

66. The auditor should not comment in a comfort letter on quantitative information that has been obtained from accounting records unless the information is subject to the same controls over financial reporting as the dollar amounts.

67. The auditor should not comment in a comfort letter on tables, statistics,

3. Regulation S-X, “Form and Content of and Requirements for Financial Statements, Securities Act of 1933, Securities Exchange Act of 1934, Public Utility Holding Company Act of 1935, Investment Company Act of 1940, and Energy Policy and Conservation Act of 1975.”

and other financial information relating to an unaudited period unless the auditor has

- a. performed an audit of the entity's financial statements for a period including, or immediately prior to, the unaudited period or completed an audit for a later period, or
- b. otherwise obtained knowledge of the entity's internal control over financial reporting.

68. The auditor should not use the term *presents fairly* in comments concerning tables, statistics, and other financial information (Ref: par. A75) and should not comment on

- a. information subject to legal interpretation, such as beneficial share ownership;
- b. nonfinancial data presented in MD&A, unless the auditor has conducted an examination or review of MD&A in accordance with AT section 701, *Management's Discussion and Analysis* (AICPA, *Professional Standards*); or (Ref: par. A76)
- c. matters merely because the auditor is capable of reading, counting, measuring, or performing other functions that might be applicable.

69. The auditor's comments in the comfort letter concerning tables, statistics, and other financial information included in the securities offering should include

- a. a clear identification of the specific information commented on;
- b. a description of the procedures performed; and
- c. the findings, expressed in terms of agreement between items compared. (Ref: par. A77–A78)

70. With respect to the acceptability of methods of allocation used in deriving the figures commented on, the auditor should comment only to the extent to which such allocation is made in, or can be derived directly by analysis or computation from, the entity's accounting records. Such comments, if made, should make clear that

- a. such allocations may be, to a substantial extent, arbitrary.
- b. the method of allocation used is not the only acceptable method.
- c. other acceptable methods of allocation might produce significantly different results.

71. The comfort letter should state that the auditor makes no representations regarding

- a. any matter of legal interpretation;
- b. the completeness or adequacy of disclosure; and
- c. the adequacy of the procedures followed, and that such procedures would not necessarily disclose material misstatements or omissions in the information to which the comments relate. (Ref: par. A79–A80)

Compliance as to Form With Regulation S-K

72. The auditor should not provide negative assurance about whether certain financial information in registration statements, included because of specific requirements of Regulation S-K, is in conformity with the disclosure requirements of Regulation S-K unless the following conditions are met:

- a. The information is derived, directly or by analysis or computation, from the accounting records subject to internal control over financial reporting.
- b. The information is capable of evaluation against reasonable criteria that have been established by the SEC. (Ref: par. A81, A84–A87)

73. The auditor should not express an opinion on conformity with the disclosure requirements of Regulation S-K. (Ref: par. A82–A83)

Concluding Paragraph

74. The comfort letter should include a concluding paragraph restricting the use of the comfort letter for the information of the addressees and to assist the requesting parties in connection with the securities offering. (Ref: par. A88)

Disclosure of Subsequently Discovered Matters

75. The auditor should inform the entity when the auditor has discovered matters that require mention in the final comfort letter but were not mentioned in the draft letter that has been furnished to the requesting party. If the entity decides that disclosure will not be made in the securities offering, the auditor should inform the entity that the matters will be mentioned in the comfort letter and should recommend that the requesting party be informed promptly.

(Ref: par. A89–A90)

APPLICATION AND OTHER EXPLANATORY MATERIAL

Definitions (Ref: par. 7)

A1. An example of a comfort letter in connection with an acquisition transaction in which there is an exchange of stock is a cross-comfort letter related to a typical Form S-4 or merger proxy situation. An auditor's report on a preliminary investigation in connection with a proposed transaction (for example, a merger, an acquisition, or a financing) is not covered by this SAS; the guidance in AT section 201, *Agreed-Upon Procedures Engagements* (AICPA, *Professional Standards*), may apply to such engagements.

Engagement Acceptance (Ref: par. 9–13)

A2. An attorney's letter indicating that a party "may" be deemed to be an underwriter or has liability substantially equivalent to that of an underwriter under the securities laws would not meet this requirement.

A3. What is "substantially consistent" may vary from situation to situation and may not be the same as that done in a registered offering of the same securities for the same issuer. Whether the procedures being, or to be, followed will be "substantially consistent" is determined by the requesting party on a case-by-case basis.

A4. Exhibit A, "Illustration of Representation Letter From Requesting Party," contains illustrative wording for a representation letter when the requesting party is not an underwriter.

A5. Exhibit B, "Examples of Comfort Letters," contains examples of comfort letters. Example Q of this exhibit provides an example of a comfort letter issued to a requesting party that has not provided the representation letter described in paragraph 11.

A6. Interpretation No. 2, "Responding to Requests for Reports on Matters Relating to Solvency," of AT section 101, *Attest Engagements* (AICPA, *Professional Standards*, AT section 9101 par. 23–33), contains guidance on additional statements to be included if this comfort letter is requested in connection with a secured debt offering.

A7. Although the auditor is not permitted to provide a comfort letter other than to requesting parties, the auditor, instead, may provide a report on agreed-upon procedures. AT section 201 provides guidance on such reports.

Agreeing Upon the Scope of Services (Ref: par. 15–23)

A8. The underwriting agreement may specify the matters to be addressed in the comfort letter. If the underwriting agreement or draft underwriting agreement is not available or does not specify the matters to be addressed, the understanding of the scope of the comfort letter may be obtained from a description furnished by the entity or requesting party. Obtaining this understanding as early as possible, and before the auditor provides a draft of the form of the letter the auditor expects to furnish, assists the auditor in determining whether the auditor will be able to furnish a letter in acceptable form.

A9. If the requesting party refuses to meet together with the entity, the auditor may consider the implications in determining whether to accept the engagement.

A10. During this meeting, the auditor may describe procedures that are frequently followed. Exhibit B provides examples of comfort letters that include these procedures. Because of the auditor's knowledge of the entity, such a meeting may assist the requesting party in reaching a decision about procedures to be followed by the auditor.

A11. When financial information in a securities offering has not been audited in accordance with GAAS and, accordingly, is not covered by an auditor's opinion, the nature of the comments that the auditor can properly make with respect to that financial information is limited. As noted in paragraph 3, obtaining a comfort letter from an auditor is one procedure used by a requesting party to establish that the requesting party has conducted a "reasonable investigation," as a defense against possible claims under Section 11 of the 1933 Act. What constitutes a reasonable investigation of unaudited financial information sufficient to satisfy a requesting party's purposes is a matter of legal interpretation.

tation. Consequently, only the requesting party can determine what is sufficient for the requesting party's purposes.

A12. The assistance that the auditor can provide by way of a comfort letter is subject to limitations. One limitation is that auditors can properly comment in their professional capacity only on matters to which their professional expertise is relevant. Another limitation is that procedures contemplated in a comfort letter, which do not constitute an audit of financial statements, do not provide the auditor with a basis for expressing an opinion. Such limited procedures may bring to the auditor's attention significant findings or issues affecting the financial information, but they do not provide assurance that the auditor will become aware of any or all significant findings or issues that would be disclosed in an audit. Accordingly, a risk exists that the auditor may have provided negative assurance on the absence of conditions or matters that may prove to have existed.

A13. Comfort letters are not required under the 1933 Act, and copies are not filed with the SEC. Nonetheless, it is a common condition of an underwriting agreement in connection with the offering for sale of securities registered with the SEC under the 1933 Act that the auditor is to furnish a comfort letter. Some underwriters do not make the receipt of a comfort letter a condition of the underwriting agreement but, nevertheless, ask for such a letter.

A14. Exhibit B, example A-1, paragraph 4 provides an illustration of an appropriate way of expressing that the auditor cannot provide any assurance regarding the sufficiency of the procedures for the requesting party's purposes.

A15. By providing a draft letter early in the process, the auditor has the opportunity to clearly show the requesting party what they may expect to receive from the auditor. Thus, the requesting party has the opportunity to discuss further with the auditor the procedures that the auditor expects to perform and to request any additional procedures that the requesting party may desire. If the additional procedures pertain to matters relevant to the auditor's professional competence and the auditor is willing to perform them, a revised draft may be prepared.

A16. Acceptance by the requesting party of the draft comfort letter (and subsequently by acceptance of the comfort letter in final form) is an indication to the auditor that the requesting party considers the procedures described to be sufficient for the requesting party's purposes. Clearly describing the procedures to be followed by the auditor in the comfort letter avoids misunderstanding about the basis on which the auditor's comments have been made and assists the requesting party in deciding whether the procedures performed are sufficient for the requesting party's purposes.

A17. The following is an example of a paragraph that may be placed on the draft letter for identification and explanation of its purposes and limitations.

This draft is furnished solely for the purpose of indicating the form of letter that we would expect to be able to furnish [name of requesting party] in response to their request, the matters expected to be covered in the letter, and the nature of the procedures that we would expect to carry out with respect to such matters. Based on our discussions with [name of requesting party], it is our understanding that the procedures outlined in this draft letter are those they wish us to follow. Unless [name of requesting party] informs us otherwise, we shall assume that there are no additional procedures they wish us to follow. The text of the letter itself will depend, of course, on the results of the procedures, which we would not expect to complete until shortly before the letter is given and in no event before the cut-off date indicated therein.

If the auditor has not had any discussions with the requesting party about the auditor's planned procedures, the second sentence in this paragraph would be revised as follows: "In the absence of any discussions with [name of requesting party], we have set out in this draft letter those procedures referred to in the draft underwriting agreement (of which we have been furnished a copy) that we are willing to follow."

A18. Situations may exist in which more than one auditor is involved in the audit of the financial statements of a business and in which the reports of more than one auditor appear in the registration statement. For example, certain significant divisions, branches, or subsidiaries may be audited by component auditors.

A19. Comfort letters are requested occasionally from more than one auditor,

for example, in connection with securities offerings to be used in the subsequent sale of shares issued in recently effected mergers and from predecessor auditors. In such circumstances, it is the entity's responsibility, at the earliest practicable date, to inform any other auditors who may be involved about any letter that may be requested of them and arrange for them to receive a draft of the underwriting agreement so that they may make arrangements at an early date for the preparation of a draft of their letter and for the performance of their procedures. The entity or requesting party is also responsible for arranging for a copy of the comfort letters of component auditors in draft and final form to be provided to the auditor of the group financial statements.

A20. In certain circumstances, regulations under the 1933 Act permit companies to register a designated amount of securities for continuous or delayed offerings during an extended period by filing one "shelf" registration statement. At the effective date of a shelf registration statement, the registrant may not yet have selected an underwriter. An entity or the legal counsel designated to represent the underwriting group may, however, ask the auditor to issue a comfort letter at the effective date of a shelf registration statement to expedite the due diligence activities of the underwriter when subsequently designated and to avoid later corrections of financial information included in an effective prospectus. However, as stated in paragraph A11, only the underwriter can determine the procedures that will be sufficient for the underwriter's purposes.

A21. The auditor may agree to furnish the entity or legal counsel for the underwriting group with a draft comfort letter describing the procedures that the auditor has performed and the comments that the auditor is willing to express as a result of those procedures.

A22. The following is an example of a legend describing the letter's purpose and limitations.

This draft describes the procedures that we have performed and represents a letter we would be prepared to sign if the managing underwriter had been chosen and requested such a letter. The text of the final letter will depend, of course, on whether the managing underwriter who is selected requests that these and other procedures be performed to meet his or her needs and whether the managing underwriter requests that any of the procedures be updated to the date of issuance of the signed letter.

A23. A signed comfort letter may be issued to the underwriter selected for the portion of the issue then being offered when the underwriting agreement for an offering is signed and on each closing date.

Format and Contents of Comfort Letters

Dating (Ref: par. 24–25)

A24. The letter ordinarily is dated on, or shortly after, the underwriting agreement is signed.

A25. The underwriting agreement ordinarily specifies the date, often referred to as the *cut-off date*, to which certain procedures described in the letter are to relate, for example, a date five days before the date of the letter. A factor in considering whether to accept the engagement is whether the period between the cut-off date and the date of the letter provides sufficient time to allow the auditor to perform the procedures and prepare the letter.

A26. Comments included in an earlier letter that relate to information in the securities offering as most recently amended may be incorporated by reference in a subsequent letter. Exhibit B, example C provides an example of such reference.

Addressee (Ref: par. 26)

A27. An example of an appropriate form of address for this purpose is "The Blank Company and XYZ & Company, as Representative of the Several Underwriters." Copies of a comfort letter addressed in accordance with the requirements in paragraph 26 may be provided to the auditor of the group financial statements when a comfort letter related to a component included in group financial statements is issued by a component auditor.

Auditor's Report (Ref: par. 28–33)

A28. The requesting party occasionally requests that the auditor repeat in the comfort letter the report on the audited financial statements included in the



registration statement. Because of the significance of the date of the auditor's report, the auditor is not permitted to agree to this request.

A29. Examples of matters addressed in emphasis-of-matter or other-matter paragraphs in the auditor's report that do not affect the opinion on the basic financial statements are

- interim financial information accompanying or included in the notes to audited financial statements,⁴ or
- required supplementary information described in AU section 558, *Required Supplementary Information*⁵ (AICPA, *Professional Standards*).

A30. A requesting party may request that the auditor comment in the comfort letter on

- unaudited interim financial information required by item 302(a) of Regulation S-K, or
- required supplementary information.

The clarified SAS *Interim Financial Information* (Redrafted) applies to unaudited interim financial information, and AU section 558 applies to required supplementary information. These sections require the auditor to modify the auditor's report on the audited financial statements to refer to such information when

- the scope of the procedures with regard to the information was restricted, or
- when the information appears not to be presented in accordance with the applicable financial reporting framework or, for required supplementary information, applicable guidelines.

Such modifications of the auditor's report in the registration statement would ordinarily be referred to in the opening paragraph of the comfort letter (see also paragraph 43). Additional comments on such unaudited information are, therefore, unnecessary. However, if the requesting party requests that the auditor perform procedures with regard to such information in addition to those procedures performed in connection with the review or audit as prescribed by the clarified SAS *Interim Financial Information* (Redrafted) and AU section 558, the auditor may do so and report the findings.

A31. The requesting party occasionally requests negative assurance regarding the auditor's report. Because auditors have a statutory responsibility with respect to their opinion as of the effective date of a securities offering and because the additional significance, if any, of negative assurance is unclear and such assurance may, therefore, give rise to misunderstanding, the auditor is not permitted to provide such negative assurance.

A32. In the introductory paragraph of the comfort letter, the auditor may refer to the fact that the auditor has issued reports on

- summary financial statements that are derived from audited financial statements,⁶
- interim financial information,⁷
- pro forma financial information,⁸
- a financial forecast,⁹
- MD&A.¹⁰

A33. If the reports are not included in the securities offering, they may be attached to the comfort letter.

A34. An example of a restricted use report that is not permitted to be referred to or attached to the comfort letter is a report on agreed-upon procedures.

Representations (Ref: par. 34)

A35. Exhibit B, example A-2 contains a reference to the requesting party's representations.

Independence (Ref: par. 35)

A36. Exhibit B, example A-1 contains an illustration of an appropriate statement confirming the auditor's independence under SEC rules and regulations

in conjunction with SEC filings.

A37. Exhibit B, example A-2 includes an illustration of an appropriate statement confirming the auditor's independence in conjunction with a securities offering when the auditor is independent under AICPA standards.

A38. The auditors for previously nonaffiliated entities recently acquired by the registrant would not be required to have been independent with respect to the entity whose shares are being registered. Exhibit B, example B includes an illustration of an appropriate statement concerning the auditor's independence in such a case.

Compliance With SEC Requirements (Ref: par. 36–40)

A39. Although the guidance in this SAS generally addresses comfort letters issued in connection with securities offerings registered pursuant to the 1933 Act, it also provides guidance on comfort letters issued in other securities transactions. However, the guidance that specifically refers to compliance of the information commented on with SEC rules and regulations, such as compliance with Regulation S-X or S-K, generally applies only to comfort letters issued in connection with securities offerings registered pursuant to the 1933 Act.

A40. The phrase *rules and regulations adopted by the SEC* is used because auditors are not expected to be familiar with, or express opinions on compliance with, informal positions of the SEC staff.

A41. An illustration of an appropriate opinion regarding compliance as to form with pertinent accounting requirements adopted by the SEC is as follows:

In our opinion [include phrase except as disclosed in the registration statement if applicable], the [identify the financial statements and financial statement schedules] audited by us and included in the registration statement comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC.

A42. Exhibit B, example K illustrates an appropriate manner of disclosing a material departure from the pertinent rules and regulations adopted by the SEC.

A43. The auditor may agree to examine or review MD&A in accordance with AT section 701.

Commenting in a Comfort Letter on Information Other Than Audited Financial Statements

General (Ref: par. 41–43)

A44. Comments included in the letter will often concern

- unaudited interim financial information.
- capsule financial information.
- pro forma financial information.
- financial forecasts.
- subsequent changes in specified financial statement items.

When the auditor has been requested to provide negative assurance on interim financial information or capsule financial information, the procedures involved in a review performed in accordance with GAAS applicable to reviews of interim financial information need not be specified.

A45. Exhibit B, example A-1, paragraph 4 contains an illustration of how the procedures performed by the auditor may be described.

A46. If the auditor states that the auditor has performed a review in accordance with GAAS applicable to reviews of interim financial information, this does not imply that those procedures are sufficient for the requesting party's purposes. The requesting party may ask the auditor to perform additional procedures. For example, the requesting party may request that the auditor apply additional procedures and specify items of financial information to be reviewed and the materiality level for changes in those items that would necessitate further inquiry by the auditor.

A47. The procedures performed with respect to interim periods may not disclose subsequent changes in the specified financial statement items, inconsistencies in the application of the applicable financial reporting framework, instances of noncompliance as to form with accounting requirements of the SEC, or other matters about which negative assurance is requested.

A48. An illustration of an appropriate manner of noting the limitations of procedures performed is shown in the last three sentences in paragraph 4 of exam-

4. Paragraphs 40–41 of clarified SAS *Interim Financial Information* (Redrafted).

5. See paragraphs .07–.09 of AU section 558, *Required Supplementary Information* (AICPA, *Professional Standards*).

6. See clarified SAS *Engagements to Report on Summary Financial Statements*.

7. See clarified SAS *Interim Financial Information* (Redrafted).

8. See AT section 401, *Reporting on Pro Forma Financial Information* (AICPA, *Professional Standards*).

9. See AT section 301, *Financial Forecasts and Projections* (AICPA, *Professional Standards*).

10. See AT section 701, *Management's Discussion and Analysis* (AICPA, *Professional Standards*).

ple A-1 in exhibit B.

A49. Because there is no way for the auditor to anticipate other matters that would be of interest to a requesting party, the auditor is precluded, in accordance with paragraph 42, from making a statement that nothing else has come to the auditor's attention that would be of interest to the requesting party.

A50. Exhibit B, example I contains an illustration of alternate wording when the auditor's report on audited financial statements is a modified report.

Knowledge of Internal Control (Ref: par. 44)

A51. The auditor may have obtained a sufficient understanding of an entity's internal control over financial reporting for both annual and interim periods through performing an audit on the entity's financial statements for one or more periods.

Unaudited Interim Financial Information (Ref: par. 45–49)

A52. The SEC requirements specify condensed financial statements. However, the requirements in paragraphs 45–49 also apply to complete financial statements. For purposes of this SAS, interim financial statements may be for a 12-month period ending on a date other than the entity's normal year-end.

A53. The auditor may, but is not required to, state in the comfort letter that the auditor has performed a review of interim financial information in accordance with GAAS applicable to reviews of interim financial information, and has issued a report on the review.

A54. Exhibit B, example A-1, paragraphs 4(a) and 5(a) provide an illustration of a description related to the procedures specified for a review in accordance with GAAS applicable to reviews of interim financial information. Exhibit B, example O provides an illustration of alternate wording when the procedures that the requesting party has requested the auditor to perform on interim financial information are less than a review in accordance with GAAS applicable to reviews of interim financial information.

A55. Exhibit B, example A-1, paragraph 3 includes an illustration of an appropriate manner of making clear that the auditor is not expressing an opinion on unaudited interim financial information.

Capsule Financial Information (Ref: par. 50–51)

A56. In some securities offerings, supplementary capsule financial information comprising unaudited summarized interim financial information for subsequent periods accompanies the information shown in the audited financial statements or unaudited interim financial information. This capsule financial information (either in narrative or tabular form) often is provided for the most recent interim period and for the corresponding period of the prior year.

A57. The requesting party may ask the auditor to provide negative assurance with respect to the unaudited interim financial information, or unaudited condensed interim financial information that underlie the capsule financial information, and ask the auditor to state that the capsule financial information agrees with amounts set forth in such financial information. Exhibit B, example L, paragraphs 4(b) and 5(b) provide an illustration of the auditor's comments in these circumstances.

Pro Forma Financial Information (Ref: par. 52–53)

A58. An appropriate level of knowledge of the accounting and financial reporting practices of the entity may be obtained by the auditor auditing or reviewing, in accordance with GAAS, historical financial statements of the entity (or, in the case of a business combination, of a significant constituent part of the combined entity) for the most recent annual or interim period for which the pro forma financial information is presented.

A59. Exhibit B, example D provides an illustration of wording regarding procedures performed on pro forma financial information.

Financial Forecasts (Ref: par. 54–57)

A60. When an entity's securities are subject to regulation by the SEC and the auditor agrees to perform a compilation of a financial forecast, the SEC's views regarding independence are relevant. Independence may be deemed to be impaired when services include preparation or assembly of financial forecasts.

A61. Exhibit B, example E provides illustrations of appropriate wording describing procedures performed on a financial forecast.

A62. The attestation standards that apply to financial forecasts provide for examinations or compilations of financial forecasts but not reviews. If a compilation report on the financial forecast has been issued in connection with the comfort letter, the report need not be included in the securities offering.

Subsequent Changes (Ref: par. 58–64)

A63. Comments regarding subsequent changes typically relate to whether, during the change period, there has been any

- change in capital stock;
- increase in long-term debt; or
- decreases in other specified financial statement items.

These comments might also address such matters as subsequent changes in the amounts of

- net current assets or stockholders' equity attributable to the entity.
- net sales and the income before continuing operations and of net income or net income attributable to the entity.

A64. Procedures may include

- reading minutes and discussing with those charged with governance those meetings for which minutes have not been approved, and
- making inquiries of entity officials relating to the whole of the change period and obtaining appropriate written representations of the entity officials to support the answers to the inquiries.

A65. Exhibit B, example A-1, paragraph 6 provides an illustration of a description of procedures related to subsequent changes.

A66. Examples of the application of the requirements of paragraph 59 are as follows:

- When the auditor has audited the December 31, 20X0 financial statements, the auditor may provide negative assurance about changes in specified financial statement items as of any date through May 14, 20X1 (134 days subsequent to December 31).
- When the auditor has audited the December 31, 20X0 financial statements and has also conducted a review of the interim financial information as of and for the quarter ended March 31, 20X1, in accordance with GAAS applicable to reviews of interim financial information, the auditor may provide negative assurance about changes in specified financial statement items as of any date through August 12, 20X1 (134 days subsequent to March 31).

A67. An appropriate manner of expressing negative assurance regarding subsequent changes is shown in exhibit B, in paragraphs 5(b) and 6 of example A-1, if there has been no decrease, and in example M if there has been a decrease. Exhibit B, example O provides an illustration of reporting procedures performed and findings obtained when the procedures that the requesting party has requested the auditor to perform on interim financial information are less than a review performed in accordance with GAAS applicable to reviews of interim financial information.

A68. In commenting on subsequent changes, the auditor may use terms such as *change*, *increase*, or *decrease*. Terms such as *adverse* are not clearly understood and may cause the comments on subsequent changes to be ambiguous.

A69. The comparison for the change period relates to the entire period and not to portions of that period. A decrease during one part of the period may be offset by an equal or larger increase in another part of the period; however, because no decrease for the period as a whole existed, the comfort letter would not report the decrease occurring during one part of the period.

A70. When more than one auditor is involved, the auditor of the group financial statements may comment that there were no decreases in the consolidated financial statement items, when appropriate, despite the possibility that decreases have been mentioned in a comfort letter issued by a component auditor. Exhibit B, example J contains an illustration of wording when more than one auditor is involved.

A71. The underwriting agreement usually specifies the dates as of which, and periods for which, data at the cut-off date and data for the change period are to be compared. For balance sheet items, the comparison date is normally that of the latest balance sheet included in the securities offering (that is, immediately prior to the beginning of the change period). For income statement items,

the comparison period or periods might be, but are not limited to, the corresponding period of the preceding year or a period of corresponding length immediately preceding the change period.

A72. The reasons for identifying the date and period used for comparison are to avoid misunderstandings about the matters being compared, and so that the requesting party can determine whether the comparison period is suitable for the requesting party's purposes.

A73. The requesting party occasionally requests that the change period begin immediately after the date of the latest audited balance sheet (which is, ordinarily, also the closing date of the latest audited statement of income) in the securities offering, even though the securities offering includes a more recent unaudited balance sheet and statement of income. The use of the earlier date may defeat the requesting party's purpose because it is possible that an increase in one of the items referred to in paragraph A63 occurring between the dates of the latest audited and unaudited balance sheets included in the securities offering might more than offset a decrease occurring after the latter date. A similar situation might arise in the comparison of income statement items. In these circumstances, the decrease occurring after the date of the latest unaudited interim financial statements included in the securities offering would not be reported in the comfort letter.

Tables, Statistics, and Other Financial Information (Ref: par. 65–71)

A74. Other financial information appearing in the securities offering does not include financial information that is covered by the auditor's opinion on the financial statements.

A75. Because the term *presents fairly*, when used by independent auditors, ordinarily relates to presentations of financial statements, the use of the term in commenting on other types of information may be misleading.

A76. When the auditor has conducted an examination or a review of MD&A in accordance with AT section 701, the auditor may agree to trace nonfinancial data presented outside MD&A to similar data included in the MD&A presentation. When the auditor does not perform a review or an examination of MD&A or does not attach or refer to a report on MD&A, the auditor may perform procedures agreed to with the requesting party with respect to items in MD&A subject to internal control over financial reporting.

A77. Options for describing the procedures performed and the findings obtained include

- describing them individually for each item of specific information commented on.
- grouping or summarizing some or all of the descriptions, as long as
 - the procedures and findings are adequately described,
 - the applicability of the descriptions to items in the securities offering is clear, and
 - the descriptions do not imply that the auditor assumes responsibility for the adequacy of the procedures.
- presenting a matrix listing the financial information and common procedures employed and indicating the procedures applied to the specific items.
- identifying procedures performed with specified symbols and identifying items to which those procedures have been applied directly on a copy of the prospectus, which is attached to the comfort letter.

A78. Exhibit B, examples F, G, and H provide illustrations of appropriate ways of expressing comments on tables, statistics, and other financial information.

A79. Except with respect to requirements for financial statements and certain Regulation S-K items discussed in paragraph 72, the question of what constitutes appropriate information for compliance with the requirements of a particular item of the securities offering form is a matter of legal interpretation outside the competence of auditors.

A80. Exhibit B, example F, paragraph 9 contains an illustration of an appropriate way of stating the limitations regarding the sufficiency of the auditor's procedures.

Compliance as to Form With Regulation S-K (Ref: par. 72–73)

A81. The following are the disclosure requirements of Regulation S-K that generally meet the criteria in paragraph 72:

- Item 301, "Selected Financial Data"

- Item 302, "Supplementary Financial Information"
- Item 402, "Executive Compensation"
- Item 503(d), "Ratio of Earnings to Fixed Charges"

A82. Because information relevant to Regulation S-K disclosure requirements other than those noted previously is generally not derived from the accounting records subject to internal control over financial reporting, it is not appropriate for the auditor to comment on conformity of this information with Regulation S-K.

A83. The auditor's inability to comment on conformity with Regulation S-K does not preclude the auditor from performing procedures and reporting findings with respect to this information.

A84. Item 305, "Quantitative and Qualitative Disclosures About Market Risk," of Regulation S-K does not meet the criteria in paragraph 65 for the auditor to provide comments on the Item 305 qualitative disclosures because the disclosures are not derived from the accounting records but are descriptive and hypothetical or forward-looking in nature.

A85. Item 305 does not meet the criteria in paragraph 72 for the auditor to provide negative assurance on conformity with Item 305. Although some information needed to comply with Item 305 is derived from the accounting records, registrants must also provide a substantial amount of information that is not derived from accounting records subject to internal control over financial reporting.

A86. Item 305 requires quantitative disclosures that may be presented in the form of a tabular presentation, sensitivity analysis, or value-at-risk disclosures. The auditor may perform limited procedures related to tabular presentations to the extent that such information is derived from the accounting records subject to internal control over financial reporting.

A87. Exhibit C, "Commenting in a Comfort Letter on Quantitative Disclosures About Market Risk Made in Accordance With Item 305 of Regulation S-K," provides guidance on providing comments on Item 305 quantitative disclosures and examples of very simplified procedures, findings, and limitations related to Item 305 tabular presentation disclosures.

Concluding Paragraph (Ref: par. 74)

A88. An illustration of an appropriate concluding paragraph is shown in exhibit B, examples A-1, A-2, and B.

Disclosure of Subsequently Discovered Matters (Ref: par. 75)

A89. Subsequently discovered matters may include changes in specified items not disclosed in the securities offering, as discussed in paragraph 62.

A90. The auditor's participation in the meeting may be helpful when the entity and requesting party discuss such matters.

A91.

EXHIBIT A: ILLUSTRATION OF REPRESENTATION LETTER FROM REQUESTING PARTY (Ref: par. A4)

The following is an example of a letter from a nonunderwriter when the securities offering is not being registered under the Securities Act of 1933.

[Date]

Dear ABC Accountants:

[Name of requesting party], as principal or agent, in the placement of [identify securities] to be issued by [name of issuer], will be reviewing certain information relating to [issuer] that will be included (incorporated by reference) in the document [if appropriate, identify the document], which may be delivered to investors and utilized by them as a basis for their investment decision. This review process, applied to the information relating to the issuer, is (will be) substantially consistent with the due diligence review process that an underwriter would perform if this placement [issuance] of securities were being registered pursuant to the Securities Act of 1933 (the Act). We are knowledgeable with respect to the due diligence review process that would be performed if this placement of securities were being registered pursuant to the Act. We hereby request that you deliver to us a "comfort" letter concerning the financial

statements of the issuer and certain statistical and other data included in the offering document. We will contact you to identify the procedures we wish you to follow and the form we wish the comfort letter to take.

Very truly yours,

[Name of Requesting Party]

A92.

EXHIBIT B: EXAMPLES OF COMFORT LETTERS

Example A: Typical Comfort Letters

Example A-1: Typical Comfort Letter for a 1933 Act Offering

Example A-2: Typical Comfort Letter for a Non-1933 Act Offering

When the Required Representation Letter Has Been Obtained

Example B: Letter When a Short-Form Registration Statement Is

Filed Incorporating Previously Filed Form 8-K by Reference

Example C: Letter Reaffirming Comments in Example A as of a Later Date

Example D: Comments on Pro Forma Financial Information

Example E: Comments on a Financial Forecast

Example F: Comments on Tables, Statistics, and Other Financial

Information—Complete Description of Procedures and Findings

Example G: Comments on Tables, Statistics, and Other Financial Information—Summarized Description of Procedures and Findings

Regarding Tables, Statistics, and Other Financial Information

Example H: Comments on Tables, Statistics, and Other Financial Information: Descriptions of Procedures and Findings Regarding Tables, Statistics, and Other Financial Information—Attached Securities Offering (or Selected Pages) Identifies Items to Which Procedures Were Applied Through the Use of Designated Symbols

Example I: Alternate Wording When Auditor's Report on Audited Financial Statements Contains an Emphasis-of-Matter Paragraph

Example J: Alternate Wording When More Than One Auditor Is Involved

Example K: Alternate Wording When the SEC Has Agreed to a Departure From Its Accounting Requirements

Example L: Alternate Wording When Recent Earnings Data Are Presented in Capsule Form

Example M: Alternate Wording When Auditors Are Aware of a Decrease in a Specified Financial Statement Item

Example N: Alternate Wording of the Letter for Companies That Are Permitted to Present Interim Earnings Data for a 12-Month Period

Example O: Alternate Wording When the Procedures That the Requesting Party Has Requested the Auditor to Perform on Interim Financial Information Are Less Than a Review in Accordance With Generally Accepted Auditing Standards Applicable to Reviews of Interim Financial Information

Example P: Intentionally Omitted (See example A-2)

Example Q: Letter to a Requesting Party That Has Not Provided the Legal Opinion or the Representation Letter Required by Paragraph 11

Example R: Alternate Wording When Reference to Examination of Annual Management's Discussion and Analysis and Review of Interim Management's Discussion and Analysis Is Made

Introduction

A92-1. The contents of comfort letters vary depending on the extent of the information in the securities offering and the wishes of the requesting party. Shelf registration statements may have several closing dates and different underwriters. Descriptions of procedures and findings regarding interim financial statements, tables, statistics, or other financial information that is incorporat-

ed by reference from previous Securities Exchange Act of 1934 filings may have to be repeated in several comfort letters. To avoid restating these descriptions in each comfort letter, the auditor may initially issue the comments in a format (such as an appendix) that can be referred to in, and attached to, subsequently issued comfort letters.

A92-2. A typical comfort letter includes

- a statement regarding the independence of the auditor. (Ref: par. 35)
- if applicable, an opinion regarding whether the audited financial statements included (incorporated by reference) in the securities offering comply as to form in all material respects with the applicable accounting requirements of the Securities Act of 1933 (the 1933 Act) and related rules and regulations adopted by the Securities and Exchange Commission (SEC). (Ref: par. 36–40)
- negative assurance on whether
 - if applicable, the unaudited interim financial information included (incorporated by reference) in the registration statement (Ref: par. 45–46) complies as to form in all material respects with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC.
 - any material modifications should be made to the unaudited financial information included (incorporated by reference) in the securities offering for them to be in conformity with the applicable financial reporting framework.
- negative assurance on whether, during a specified period following the date of the latest financial statements in the securities offering and prospectus, there has been any change in capital stock, increase in long-term debt, or any decrease in other specified financial statement items. (Ref: par. 58–64)

Example A-1 contains a typical comfort letter for a 1933 Act offering and example A-2 contains a typical comfort letter for a non-1933 Act offering. Letters that cover some of the items may be developed by omitting inapplicable portions of these examples. Examples B, D–O, and R contain additional or alternate wording for examples A-1 or A-2, as applicable, for various scenarios.

Although the illustrations in this exhibit describe procedures that may be followed by auditors as a basis for their comments, this SAS does not necessarily prescribe such procedures.

Example A: Typical Comfort Letters

Example A-1: Typical Comfort Letter for a 1933 Act Offering

A92-3. Example A-1 is an example of a letter that the auditor of a nonissuer may provide when a registrant is including the nonissuer's financial statements in the securities offering to be filed with the SEC. Appropriate modifications would be made if additional financial information is covered by the comfort letter. Example A-1 assumes the following circumstances:

- The prospectus includes audited consolidated balance sheets as of December 31, 20X5 and 20X4, and audited consolidated statements of income, stockholders' equity, and cash flows for each year in the three-year period ended December 31, 20X5. Note that the example assumes all the net income is attributable to the company. If that were not the case, the references to net income would be modified, or additional references would be included as appropriate.
- The prospectus also includes an unaudited condensed consolidated balance sheet as of March 31, 20X6, and unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, reviewed in accordance with generally accepted auditing standards applicable to reviews of interim financial information but not previously reported on by the auditor. The example also assumes that the auditor has not previously reported on the interim financial information. If the auditor has previously reported on the interim financial information, that fact may be referred to in the introductory paragraph of the comfort letter as follows:

Also, we have reviewed the unaudited condensed consolidated financial statements as of March 31, 20X6 and 20X5, and for the three-month periods then ended, as indicated in our report dated May 15, 20X6,



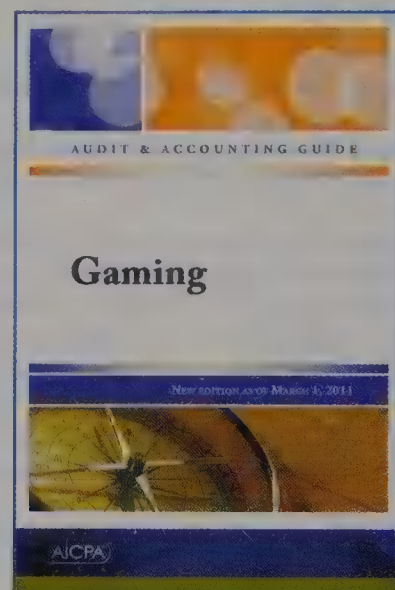
Gaming: New and Expanded

Overhauled AICPA Audit & Accounting Guide, "Gaming"

Those in the gaming industry and those that serve it have been recently faced with new accounting and auditing guidance that is shaping the way they go about their business. Since our last update to the AICPA Audit & Accounting Guide, Gaming, formerly named *Casinos*, several changes to the financial reporting requirements of the gaming industry have been issued or became effective.

On December 17, 2009, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update No. 2010-06, *Entertainment-Casinos (Topic 924): Casino Base Jackpot Liabilities—a consensus of the FASB Emerging Issues Task Force*. The guidance was issued to eliminate diversity in practice for entities not already following common guidance related to the accrual of jackpot liabilities whether or not the payment of the jackpot could be avoided. This guidance became effective for entities with fiscal years and interim periods within those fiscal years beginning on or after December 15, 2010 and has been included in this edition of the AICPA Audit & Accounting Guide, *Gaming*.

Overhauled and updated as of March 1, 2011, this edition of the AICPA Audit & Accounting Guide also contains several topics for the first



time. This expanded information includes guidance for governmental gaming entities and illustrative financial statements and footnotes for those entities, illustrative guidance when accounting for guarantees, guidance regarding The New Jersey Casino Reinvestment Development Authority, as well as guidance for currency transaction reporting in the gaming industry.

Don't miss out on this new guide to keep you up-to-date on the latest developments related to the gaming industry.

The AICPA Audit & Accounting Guide, Gaming (product No. 0127111) is available for order at cpa2biz.com. Please use coupon code **TLT** to save 10%.

NEW RESOURCES

New Resources

U.S. Taxation of International Operations: Key Knowledge

By Michael Tilton, CPA, J.D.

If your organization conducts international transactions — from occasional sales outside the U.S. to fully integrated foreign manufacturing and sales operations — you'll find this book to be an invaluable resource. Features detailed coverage of inbound U.S. investment by foreign investors and businesses, including recently enacted FATCA and FBAR foreign ownership, reporting and withholding rules, as well as long-standing U.S. customs and withholding tax reporting requirements for inbound transactions and operations.

091102

Regular \$77.50

AICPA Member \$62.00

CPE Self-Study

IFRS Certificate Program

The IFRS Certificate Program includes a comprehensive, integrated curriculum of 25 online self-study courses

Objectives:

- Obtain a basic proficiency in International Financial Reporting Standards (IFRS) necessary in a global environment
- Acquire a broad overview of key IFRS definitions and concepts
- Be introduced to the fundamental application of IFRS across a range of accounting topics

Prerequisite: None required. It is recommended that you complete the AICPA course IFRS Essentials: Moving Beyond the Basics or have equivalent knowledge and experience prior to enrollment.

NASBA Field of Study: Accounting

Level: Basic

Recommended CPE Credit: 42

For more information or to order, visit
cpa2biz.com/ifrscertificate

BEST SELLERS

Professional Standards

0051011

\$135.00 AICPA Member/ \$168.75 Regular

Reporting on Controls at a Service Organization (SOC 1)

0127910

\$60.00 AICPA Member/ \$75.00 Regular

The Adviser's Guide to S Corporations: Tax Compliance and Planning Strategies

091095

\$79.00 AICPA Member/ \$98.75 Regular

Payroll Taxes, Benefits and 1099 Reporting: Everything You Need to Know

No. 745851

\$199.00 AICPA Member/\$248.75 Regular

Annual Update for Accountants and Auditors (2011–2012 Edition)

No. 730097

\$189.00 AICPA Member/ \$236.25 Regular

Innovative Tax Planning for Small Businesses: Corporations, Partnerships & LLCs

No. 745524

\$159.00 AICPA Member/ \$198.75 Regular

UPCOMING AICPA CONFERENCES & EVENTS



Conferences

- **AICPA/SIFMA FMS
National Conference
on the Securities Industry**
October 26-27, 2011
Marriott Marquis, New York, NY

- **AICPA National Business
Valuation Conference**
November 6-8, 2011
Aria Resort & Casino
Las Vegas, NV
Workshop: Sunday, November 6

which is included (incorporated by reference) in the registration statement.

The cut-off date is June 23, 20X6, and the letter is dated June 28, 20X6. The effective date is June 28, 20X6.

- The auditors are reporting independence under the SEC rules and regulations. If the auditors were not required to be independent under the SEC rules and regulations in conjunction with an SEC filing, paragraph 1 in example A-1 would be replaced with paragraph 1 in example A-2.

The auditor may agree to comment in the comfort letter on whether the interim financial information complies as to form in all material respects with the applicable accounting requirements of the rules and regulations adopted by the SEC.

The example also assumes that there has been no change in the application of a requirement of generally accepted accounting principles during the interim period. If there has been such a change, a reference to that change would be included in paragraph 5 of example A-1.

Each of the comments in the letter is in response to a requirement of the underwriting agreement. For purposes of example A-1, the income statement items of the current interim period are to be compared with those of the corresponding period of the preceding year.

June 28, 20X6

[Addressee]

Dear Ladies and Gentlemen:

We have audited the consolidated financial statements of The Nonissuer Company, Inc. (the company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X5 and 20X4, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 20X5, and the related notes to the consolidated financial statements, all included in The Issuer Company's (the registrant) registration statement (no. 33-00000) on Form S-1 filed by the registrant under the Securities Act of 1933 (the Act); our report with respect thereto is also included in that registration statement. The registration statement, as amended on June 28, 20X6, is herein referred to as the registration statement.

In connection with the registration statement—

1. We are independent certified public accountants with respect to the company within the meaning of the 1933 Act and the applicable rules and regulations thereunder adopted by the SEC.
2. In our opinion [*include the phrase except as disclosed in the registration statement if applicable*], the consolidated financial statements audited by us and included in the registration statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.
3. We have not audited any financial statements of the company as of any date or for any period subsequent to December 31, 20X5; although, we have conducted an audit for the year ended December 31, 20X5, the purpose (and, therefore, the scope) of the audit was to enable us to express our opinion on the consolidated financial statements as of December 31, 20X5, and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, we are unable to and do not express any opinion on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the registration statement, or on the financial position, results of operations, or cash flows as of any date or for any period subsequent to December 31, 20X5.
4. For purposes of this letter we have read the 20X6 minutes of meetings of the stockholders, the board of directors, and [*include other appropriate committees, if any*] of the company and its subsidiaries as set forth in the minute books at June 23, 20X6, officials of the company having advised us that the minutes

of all such meetings through that date were set forth therein and having discussed with us the unapproved minutes of meetings held on [dates]; we have carried out other procedures to June 23, 20X6, as follows (our work did not extend to the period from June 24, 20X6 to June 28, 20X6, inclusive):

- a. With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—
 - (i) Performed the procedures specified for a review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information, on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the registration statement.
 - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in (a)(i) comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.
- b. With respect to the period from April 1, 20X6 to May 31, 20X6, we have—
 - (i) Read the unaudited consolidated financial statements of the company and subsidiaries for April and May of both 20X5 and 20X6 furnished us by the company, officials of the company having advised us that no such financial statements as of any date or for any period subsequent to May 31, 20X6, were available. [*If applicable: The financial information for April and May of both 20X5 and 20X6 is incomplete in that it omits the statements of cash flows and other disclosures.*]
 - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited consolidated financial statements referred to in (b)(i) are stated on a basis substantially consistent with that of the audited consolidated financial statements included in the registration statement.

The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Also, they would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representations regarding the sufficiency of the foregoing procedures for your purposes.

5. Nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that—

- a. (i) Any material modifications should be made to the unaudited condensed consolidated financial statements described in 4(a)(i), included in the registration statement, for them to be in conformity with generally accepted accounting principles.¹
- (ii) The unaudited condensed consolidated financial statements described in 4(a)(i) do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.
- b. (i) At May 31, 20X6, there was any change in the capital stock, increase in long-term debt, or decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the registration statement, or
- (ii) for the period from April 1, 20X6 to May 31, 20X6, there were any decreases, as compared to the corresponding period in the preceding year, in consolidated net sales or in income before extraordinary items or of net income, except in all instances for changes, increases, or decreases that the registration statement discloses have occurred or may occur.

6. As mentioned in 4(b), company officials have advised us that no consolidated financial statements as of any date or for any period subsequent to May 31, 20X6 are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after May 31, 20X6 have, of necessity, been even more limited than those with respect to the periods referred to in

1. Clarified Statement on Auditing Standards (SAS) *Interim Financial Information* (Redrafted) does not require the auditor to modify the report on a review of interim financial information for a lack of consistency in the application of accounting policies provided that the interim financial information appropriately discloses such matters.

4. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (a) at June 23, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown on the March 31, 20X6, unaudited condensed consolidated balance sheet included in the registration statement, or (b) for the period from April 1, 20X6 to June 23, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales, or in income before extraordinary items or of net income. On the basis of these inquiries and our reading of the minutes as described in 4, nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, except in all instances for changes, increases, or decreases that the registration statement discloses have occurred or may occur.

7. This letter is solely for the information of the addressees and to assist the underwriters in conducting and documenting their investigation of the affairs of the company in connection with the offering of the securities covered by the registration statement, and it is not to be used, circulated, quoted, or otherwise referred to within or without the underwriting group for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to in whole or in part in the registration statement or any other document, except that reference may be made to it in the underwriting agreement or in any list of closing documents pertaining to the offering of the securities covered by the registration statement.

Example A-2: Typical Comfort Letter for a Non-1933 Act Offering When the Required Representation Letter Has Been Obtained

A92-4. Example A-2 is applicable when a comfort letter is issued in a non-1933 Act offering. Example A-2 assumes the following:

- The offerer is not an SEC registrant.
- The requesting party has given the auditor a representation letter as required by paragraph 10 and described in paragraph 11.
- Interim financial information is included in the offering document, and the auditor has performed review procedures in accordance with generally accepted auditing standards applicable to reviews of interim financial information.
- The auditor did not perform an audit of the effectiveness of internal control over financial reporting in any period.
- There has not been a change in the application of a requirement of generally accepted accounting principles during the interim period. If there has been such a change, a reference to that change would be included in paragraph 4 of example A-2.

The cut-off date is June 23, 20X6, and the letter is dated June 28, 20X6.

Each of the comments in the letter is in response to a request from the requesting party. For purposes of example A-2, the income statement items of the current interim period are to be compared with those of the corresponding period of the preceding year.

June 28, 20X6

[Addressee]

Dear Ladies and Gentlemen:

We have audited the consolidated financial statements of The Nonissuer Company, Inc. (the company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X5 and 20X4, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 20X5, and the related notes to the consolidated financial statements, all included [or incorporated by reference] in the offering memorandum for \$30,000,000 of Senior Debt due May 30, 20Z6. Our report with respect thereto is included in the offering memorandum. This offering memorandum, dated June 28, 20X6, is herein referred to as the Offering Memorandum.

This letter is being furnished in reliance upon your representation to us

that—

- a. You are knowledgeable with respect to the due diligence review process that would be performed if this placement of securities were being registered pursuant to the Securities Act of 1933 (the Act).
- b. In connection with the offering of Senior Debt, the review process you have performed is substantially consistent with the due diligence review process that you would have performed if this placement of securities were being registered pursuant to the Act.

In connection with the Offering Memorandum—

1. We are independent certified public accountants with respect to the company under Rule 101 of the AICPA's Code of Professional Conduct and its interpretations and rulings.
2. We have not audited any financial statements of the company as of any date or for any period subsequent to December 31, 20X5; although, we have conducted an audit for the year ended December 31, 20X5, the purpose (and, therefore, the scope) of the audit was to enable us to express our opinion on the consolidated financial statements as of December 31, 20X5, and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, we are unable to and do not express any opinion on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, of cash flows, and of changes in stockholders' equity for the three-month periods ended March 31, 20X5 and 20X6, included in the Offering Memorandum, or on the financial position, results of operations, or cash flows as of any date or for any period subsequent to December 31, 20X5.

3. For purposes of this letter, we have read the 20X6 minutes of meetings of the stockholders, the board of directors, and [include other appropriate committees, if any] of the company and its subsidiaries as set forth in the minute books at June 23, 20X6, officials of the company having advised us that the minutes of all such meetings through that date were set forth therein and having discussed with us the unapproved minutes of meetings held on [dates]; we have carried out other procedures to June 23, 20X6, as follows (our work did not extend to the period from June 24, 20X6 to June 28, 20X6, inclusive):

- a. With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—
 - (i) Performed the procedures specified for a review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information, on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the Offering Memorandum.
- b. With respect to the period from April 1, 20X6 to May 31, 20X6, we have—
 - (i) Read the unaudited consolidated financial statements of the company and subsidiaries for April and May of both 20X5 and 20X6 furnished us by the company, officials of the company having advised us that no such financial statements as of any date or for any period subsequent to May 31, 20X6, were available. [If applicable: The financial information for April and May of both 20X5 and 20X6 is incomplete in that it omits the statement of cash flows and other disclosures.]
 - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited consolidated financial statements referred to in (b)(i) are stated on a basis substantially consistent with that of the audited consolidated financial statements included in the Offering Memorandum.

The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Also, they would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representations regarding the sufficiency of the foregoing procedures for your purposes.

4. Nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that—

- a. (i) Any material modifications should be made to the unaudited condensed consolidated financial statements described in 3(a)(i), included in the Offering Memorandum, for them to be in conformity with generally

accepted accounting principles.²

- b. (i) At May 31, 20X6, there was any change in the capital stock, increase in long-term debt, or decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the Offering Memorandum, or
 - (ii) for the period from April 1, 20X6 to May 31, 20X6, there were any decreases, as compared to the corresponding period in the preceding year, in consolidated net sales, or in income before extraordinary items or of net income, except in all instances for changes, increases, or decreases that the Offering Memorandum discloses have occurred or may occur.
5. As mentioned in 3(b), company officials have advised us that no consolidated financial statements as of any date or for any period subsequent to May 31, 20X6 are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after May 31, 20X6, have, of necessity, been even more limited than those with respect to the periods referred to in 3. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (a) at June 23, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown on the March 31, 20X6 unaudited condensed consolidated balance sheet included in the Offering Memorandum, or (b) for the period from April 1, 20X6 to June 23, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income before extraordinary items or of net income. On the basis of these inquiries and our reading of the minutes as described in 3, nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, except in all instances for changes, increases, or decreases that the Offering Memorandum discloses have occurred or may occur.
6. This letter is solely for the information of the addressees and to assist the requesting party in conducting and documenting their investigation of the affairs of the company in connection with the offering of the securities covered by the Offering Memorandum, and it is not to be used, circulated, quoted, or otherwise referred to for any purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to in whole or in part in the Offering Memorandum or any other document, except that reference may be made to it in the Purchase Contract or in any list of closing documents pertaining to the offering of the securities covered by the Offering Memorandum.

Example B: Letter When a Short-Form Registration Statement Is Filed Incorporating Previously Filed Form 8-K by Reference

A92-5. Example B is an example of modifications to the letter that the auditor of a nonissuer may provide when a registrant has acquired the nonissuer, and the registrant uses a short-form registration statement (for example, Form S-3), which incorporates a previously filed Form 8-K that includes the non-public company's financial statements. The auditor was independent of the non-issuer but is not independent with respect to the registrant.

June 28, 20X6

[Addressee]

Dear Ladies and Gentlemen:

We have audited the consolidated financial statements of The Nonissuer Company, Inc. (the company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X5 and 20X4, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 20X5, and the related notes to the consolidated financial statements, all included in The Issuer Company's (the registrant) current report on Form 8-K dated May 15,

20X6, and incorporated by reference in the registration statement (no. 33-00000) on Form S-3 filed by the registrant under the Securities Act of 1933 (the Act); our report with respect thereto is also incorporated by reference in that registration statement. The registration statement, as amended on June 28, 20X6, is herein referred to as the registration statement.

In connection with the registration statement—

1. As of [insert date of the auditor's most recent report on the financial statements of the entity] and during the period covered by the financial statements on which we reported, we were independent certified public accountants with respect to the company under Rule 101 of the AICPA's Code of Professional Conduct and its interpretations and rulings.
2. In our opinion, the consolidated financial statements audited by us and incorporated by reference in the registration statement comply as to form in all material respects with the applicable accounting requirements of the Act and the Securities Exchange Act of 1934 and the related rules and regulations adopted by the SEC.
3. We have not audited any financial statements of the company as of any date or for any period subsequent to December 31, 20X5; although we have conducted an audit for the year ended December 31, 20X5, the purpose (and, therefore, the scope) of the audit was to enable us to express our opinion on the consolidated financial statements as of December 31, 20X5, and for the year then ended, but not on the consolidated financial statements for any interim period within that year. Therefore, we are unable to, and do not express any opinion on, the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the registrant's current report on Form 8-K dated May 15, 20X6, incorporated by reference in the registration statement, or on the financial position, results of operations, or cash flows as of any date or for any period subsequent to December 31, 20X5.
4. For purposes of this letter, we have read the 20X6 minutes of the meetings of the stockholders, the board of directors, and [include other appropriate committees, if any] of the company and its subsidiaries as set forth in the minute books at June 23, 20X6, officials of the company having advised us that the minutes of all such meetings through that date were set forth therein, and having discussed with us the unapproved minutes of meetings held on [dates]; we have carried out other procedures to June 23, 20X6, as follows (our work did not extend to the period from June 24, 20X6 to June 28, 20X6, inclusive):

With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—

- (i) Performed a review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the registrant's current report on Form 8-K dated May 15, 20X6, incorporated by reference in the registration statement.
- (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in (i) comply as to form in all material respects with the applicable accounting requirements of the Securities Exchange Act of 1934 and the related rules and regulations adopted by the SEC.

The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Also, they would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representations about the sufficiency of the foregoing procedures for your purposes.

5. Nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that—

- (i) Any material modifications should be made to the unaudited condensed consolidated financial statements described in 4(i), incorporated by reference in the registration statement, for them to be in conformity with generally accepted accounting principles.

2. See footnote 1.

- (ii) The unaudited condensed consolidated financial statements described in 4(i) do not comply as to form in all material respects with the applicable accounting requirements of the Securities Exchange Act of 1934 and the related rules and regulations adopted by the SEC.

6. This letter is solely for the information of the addressees and to assist the underwriters in conducting and documenting their investigation of the affairs of the company in connection with the offering of the securities covered by the registration statement, and for use of the auditors of the registrant in furnishing their letter to the underwriters, and it is not to be used, circulated, quoted, or otherwise referred to within the underwriting group for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to, in whole or in part, in the registration statement or any other document, except that reference may be made to it in the underwriting agreement or any list of closing documents pertaining to the offering of the securities covered by the registration statement.

Example C: Letter Reaffirming Comments in Example A-1 as of a Later Date

A92-6. If more than one comfort letter is requested, the later letter may, in appropriate situations, refer to information appearing in the earlier letter without repeating such information (see paragraph 25 of this Statement on Auditing Standards and paragraph A92-1 of the exhibit). Example C reaffirms and updates the information in example A-1.

July 25, 20X6

[Addressee]

Dear Ladies and Gentlemen:

We refer to our letter of June 28, 20X6, relating to the registration statement (no. 33-00000) of The Nonissuer Company, Inc. (the company). We reaffirm as of the date hereof (and as though made on the date hereof) all statements made in that letter except that, for the purposes of this letter

- a. The registration statement to which this letter relates is as amended on July 13, 20X6 [effective date].
- b. The reading of minutes described in paragraph 4 of that letter has been carried out through July 20, 20X6 [the new cut-off date].
- c. The procedures and inquiries covered in paragraph 4 of that letter were carried out to July 20, 20X6 [the new cut-off date] (our work did not extend to the period from July 21, 20X6 to July 25, 20X6 [date of letter], inclusive).
- d. The period covered in paragraph 4(b) of that letter is changed to the period from April 1, 20X6 to June 30, 20X6, officials of the company having advised us that no such financial statements as of any date or for any period subsequent to June 30, 20X6, were available.
- e. The references to May 31, 20X6 in paragraph 5(b) of that letter are changed to June 30, 20X6.
- f. The references to May 31, 20X6 and June 23, 20X6 in paragraph 6 of that letter are changed to June 30, 20X6 and July 20, 20X6, respectively.

This letter is solely for the information of the addressees and to assist the underwriters in conducting and documenting their investigation of the affairs of the company in connection with the offering of the securities covered by the registration statement, and it is not to be used, circulated, quoted, or otherwise referred to within or without the underwriting group for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to, in whole or in part, in the registration statement or any other document, except that reference may be made to it in the underwriting agreement or any list of closing documents pertaining to the offering of the securities covered by the registration statement.

Example D: Comments on Pro Forma Financial Information

A92-7. Example D is applicable when the auditor is asked to provide negative assurance on (a) whether the pro forma financial information included in a registration statement complies as to form in all material respects with the appli-

cable accounting requirements of Rule 11-02 of Regulation S-X, and (b) the application of pro forma adjustments to historical amounts in the compilation of the pro forma financial information (see paragraphs 52-53). The material in this example is intended to be inserted between paragraphs 6 and 7 in example A-1. The example assumes that the auditor has not previously reported on the pro forma financial information. If the auditor did previously report on the pro forma financial information, they may refer in the introductory paragraph of the comfort letter to the fact that they have issued a report, and the report may be attached to the comfort letter (see paragraph A32-A33). Therefore, in that circumstance, the procedures in 6(b)(i) and 6(c) ordinarily would not be performed, and the auditor would not separately comment on the application of pro forma adjustments to historical financial information because that assurance is encompassed in the auditors' report on pro forma financial information. The auditor may, however, agree to comment on compliance as to form with the applicable accounting requirements of Rule 11-02 of Regulation S-X.

6. At your request, we have—

- a. Read the unaudited pro forma condensed consolidated balance sheet as of March 31, 20X6, and the unaudited pro forma condensed consolidated statements of income for the year ended December 31, 20X5, and the three-month period ended March 31, 20X6, included in the registration statement.
- b. Inquired of certain officials of the company who have responsibility for financial and accounting matters about
 - (i) the basis for their determination of the pro forma adjustments and
 - (ii) whether the unaudited pro forma condensed consolidated financial statements referred to in 6(a) comply as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X.
- c. Proved the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the unaudited pro forma condensed consolidated financial statements.

The foregoing procedures are substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assumptions, the pro forma adjustments, and the application of those adjustments to historical financial information. Accordingly, we do not express such an opinion. The foregoing procedures would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representation about the sufficiency of such procedures for your purposes.

7. Nothing came to our attention as a result of the procedures specified in paragraph 6, however, that caused us to believe that the unaudited pro forma condensed consolidated financial statements referred to in 6(a) included in the registration statement have not been properly compiled on the pro forma bases described in the notes thereto. Had we performed additional procedures or had we made an examination of the pro forma condensed consolidated financial statements, other matters might have come to our attention that would have been reported to you.

Example E: Comments on ■ Financial Forecast

A92-8. Example E is applicable when an auditor is asked to comment on a financial forecast (see paragraph 54). The material in this example is intended to be inserted between paragraphs 6 and 7 in example A-1 and 5 and 6 in example A-2. The example assumes that the auditor has previously reported on the compilation of the financial forecast and that the report is attached to the letter (see paragraph A33 and example O).

7. At your request, we performed the following procedure with respect to the forecasted consolidated balance sheet and consolidated statements of income and cash flows as of December 31, 20X6, and for the year then ending. With respect to forecasted rental income, we compared the occupancy statistics about expected demand for rental of the housing units to statistics for existing comparable properties and found them to be the same.

8. Because the procedure described above does not constitute an examination of prospective financial statements in accordance with standards promulgated by the American Institute of Certified Public Accountants, we do not express an opinion on whether the prospective financial statements are presented in conformity with AICPA presentation guidelines or on whether the underlying

assumptions provide a reasonable basis for the presentation.

Had we performed additional procedures or had we made an examination of the forecast in accordance with standards promulgated by the AICPA, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Example F: Comments on Tables, Statistics, and Other Financial Information—Complete Description of Procedures and Findings

A92-9. Example F is applicable when the auditor is asked to comment on tables, statistics, or other compilations of information appearing in a registration statement (paragraphs 65–71). Each of the comments is in response to a specific request. The paragraphs in example F are intended to follow paragraph 6 in example A-1 or paragraph 5 in example A-2.

In some cases, the auditor may wish to combine in one paragraph the substance of paragraphs 6 and 8 shown as follows. This may be done by expanding the identification of items in paragraph 8 to provide the identification information included in paragraph 6. In such cases, the introductory sentences in paragraphs 6 and 8 and the text of paragraph 7 might be combined as follows: “For purposes of this letter, we have also read the following information and have performed the additional procedures stated below with respect to such information. Our audit of the consolidated financial statements. . .”

6. For purposes of this letter, we have also read the following, set forth in the securities offering on the indicated pages.

Item	Page	Description
a	4	“Capitalization.” The amounts under the captions “Amount Outstanding as of May 31, 20X6” and “As Adjusted.” The related notes, except the following in Note 2: “See Transactions With Interested Persons.” From the proceeds of this offering the company intends to prepay \$900,000 on these notes, pro rata. See “Use of Proceeds.”
b	13	“History and Business—Sales and Marketing.” The table following the first paragraph.
c	33	“Selected Financial Data.”

7. Our audit of the consolidated financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements as a whole. For none of the periods referred to therein, or any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above, and, accordingly, we express no opinion thereon.

8. However, for purposes of this letter, we have performed the following additional procedures, which were applied as indicated with respect to the items enumerated above.

Item in 6	Procedures and Findings
a	We compared the amounts and numbers of shares listed under the caption, “Amount Outstanding as of May 31, 20X6,” with the balances in the appropriate accounts in the company’s general ledger and found them to be in agreement. We compared the amounts and numbers of shares listed under the caption, “Amount Outstanding as of May 31, 20X6,” adjusted for the issuance of the debentures to be offered by means of the securities offering and for the proposed use of a portion of the proceeds thereof to prepay portions of certain notes, as described under “Use of Proceeds,” with the amounts and numbers of shares shown under the caption, “As Adjusted,” and found such amounts and numbers of shares to be in agreement. (However, we make no comments regarding the reasonableness of the “Use of Proceeds” or whether such use will actually take place.)
b	We compared the amounts of military sales, commercial sales, and total sales shown in the securities offering with the balances in the appropriate accounts in the company’s accounting records for the respective fiscal years and for the unaudited interim periods and found them to be in agreement. We proved the arithmetic accuracy of the percentages of such amounts of military sales and commercial sales to total sales for the respective fiscal years and for the unaudited interim periods. We compared such computed percentages with the corresponding percentages appearing in the registration statement and found them to be in agreement.
c	We compared the amounts of net sales and income from continuing operations for the years ended December 31, 20X5, 20X4, and 20X3, with the respective amounts in the consolidated financial statements on pages 27 and 28 and the amounts for the years ended December 31, 20X2 and 20X1, with the respective amounts in the consolidated financial statements for 20X2 and 20X1 and found them to be in agreement. We compared the amounts of total assets, long-term obligations, and redeemable preferred stock at December 31, 20X5 and 20X4, with the respective amounts in the consolidated financial statements on pages 27 and 28 and the amounts at December 31, 20X3, 20X2, and 20X1, with the corresponding amounts in the consolidated financial statements for 20X3, 20X2, and 20X1 and found them to be in agreement. We compared the information included under the heading “Selected Financial Data” with the disclosure requirements of Item 301 of Regulation S-K. We also inquired of certain officials of the company who have responsibility for financial and accounting matters whether this information conforms in all material respects with the disclosure requirements of Item 301 of Regulation S-K. Nothing came to our attention as a result of the foregoing procedures that caused us to believe that this information does not conform in all material respects with the disclosure requirements of Item 301 of Regulation S-K.

9. It should be understood that we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraph; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above. Further, we have addressed ourselves solely to the foregoing data as set forth in the registration statement and make no representations regarding the adequacy of disclosure or regarding whether any material facts have been omitted.

Example G: Comments on Tables, Statistics, and Other Financial Information—Summarized Description of Procedures and Findings Regarding Tables, Statistics, and Other Financial Information

A92-10. Example G illustrates, in paragraph 8(a), a method of summarizing the descriptions of procedures and findings regarding tables, statistics, and other financial information in order to avoid repetition in the comfort letter. Each of

the comments is in response to a specific request. The paragraphs in example G are intended to follow paragraph 6 in example A-1 or paragraph 5 in example A-2.

Other methods of summarizing the descriptions may also be appropriately used. For example, the letter may present a matrix listing the financial information and common procedures employed and indicating the procedures applied to specific items.

6. For purposes of this letter, we have also read the following, set forth in the registration statement on the indicated pages.

Item	Page	Description
a	4	"Capitalization." The amounts under the captions "Amount Outstanding as of May 31, 20X6" and "As Adjusted." The related notes, except the following in Note 2: "See Transactions With Interested Persons." From the proceeds of this offering the company intends to prepay \$900,000 on these notes, pro rata. See "Use of Proceeds."
b	13	"History and Business—Sales and Marketing." The table following the first paragraph.
c	33	"Selected Financial Data."

7. Our audit of the consolidated financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements as a whole. For none of the periods referred to therein, or any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions, such as those enumerated above, and, accordingly, we express no opinion thereon.

8. However, for purposes of this letter and with respect to the items enumerated in 6 above—

a. Except for item 6(a), we have (i) compared the dollar amounts either with the amounts in the audited consolidated financial statements described in the introductory paragraph of this letter or, for prior years, included in the company's accounting records, or with amounts in the unaudited consolidated financial statements described in paragraph 3 to the extent such amounts are included in or can be derived from such statements and found them to be in agreement; (ii) compared the amounts of military sales, commercial sales, and total sales with amounts in the company's accounting records and found them to be in agreement; (iii) compared other dollar amounts with amounts shown in analyses prepared by the company and found them to be in agreement; and (iv) proved the arithmetic accuracy of the percentages based on the data in the above-mentioned financial statements, accounting records, and analyses.

We compared the information in item 6(c) with the disclosure requirements of Item 301 of Regulation S-K. We also inquired of certain officials of the company who have responsibility for financial and accounting matters whether this information conforms in all material respects with the disclosure requirements of Item 301 of Regulation S-K. Nothing came to our attention as a result of the foregoing procedures that caused us to believe that this information does not conform in all material respects with the disclosure requirements of Item 301 of Regulation S-K.

b. With respect to item 6(a), we compared the amounts and numbers of shares listed under the caption "Amount Outstanding as of May 31, 20X6" with the balances in the appropriate accounts in the company's general ledger at May 31, 20X6, and found them to be in agreement. We compared the amounts and numbers of shares listed under the caption "Amount Outstanding as of May 31, 20X6," adjusted for the issuance of the debentures to be offered by means of the securities offering and for the proposed use of a portion of the proceeds thereof to prepay portions of certain notes, as described under "Use of Proceeds," with the amounts and numbers of shares shown under the caption, "As Adjusted" and found such amounts and numbers of shares to be in agreement. (However, we make no comments regarding the reasonableness of "Use of Proceeds" or whether such use will actually take place.)

9. It should be understood that we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraph; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above. Further, we have addressed ourselves solely to the foregoing data as set forth in the registration statement and make no representations regarding the adequacy of disclosure or regarding whether any material facts have been omitted.

Example H: Comments on Tables, Statistics, and Other Financial Information: Descriptions of Procedures and Findings Regarding Tables, Statistics, and Other Financial Information—Attached Securities Offering (or Selected Pages) Identifies Items to Which Procedures Were Applied Through the Use of Designated Symbols

A92-11. This example illustrates an alternate format, which could facilitate reporting when the auditor is requested to perform procedures on numerous statistics included in a securities offering. Each of the comments is in response to a specific request. The paragraph in example H is intended to follow paragraph 6 in example A-1 or paragraph 5 in example A-2.

7. For purposes of this letter, we have also read the items identified by you on the attached copy of the registration statement and have performed the following procedures, which were applied as indicated with respect to the symbols explained below:

- ✓ Compared the amount with ABC Company's financial statements for the period indicated included in the securities offering and found them to be in agreement.

8. Our audit of the consolidated financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements as a whole. For none of the periods referred to therein, nor any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions, such as those enumerated above, and, accordingly, we express no opinion thereon.

9. It should be understood that we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraph; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above. Further, we have addressed ourselves solely to the foregoing data as set forth in the registration statement and make no representations regarding the adequacy of disclosure or regarding whether any material facts have been omitted.

[The following is an extract from a securities offering that illustrates how an auditor can document procedures performed on numerous statistics included in the securities offering.]

Summary Financial Information of ABC Company (In thousands)			
	ABC Company Year Ended December 31,		
Income statement data	20X3	20X4	20X5
Revenue from home sales	\$104,110 ✓	\$115,837 ✓	\$131,032 ✓
Gross profit from sales	23,774 ✓	17,099 ✓	22,407 ✓
Income from home building net of tax	7,029 ✓	1,000 ✓	3,425 ✓

Example I: Alternate Wording When Auditor's Report on Audited Financial Statements Contains an Emphasis-of-Matter Paragraph

A92-12. Example I is applicable when the auditor's report on the audited financial statements included in the securities offering contains an emphasis-of-matter paragraph regarding a matter that would also affect the unaudited condensed consolidated interim financial statements included in the securities offering. The introductory paragraph would be revised as follows:

Our reports with respect thereto (which contain an emphasis-of-matter paragraph that describes a lawsuit to which the Company is a defendant, discussed in note 8 to the consolidated financial statements), are also included in the securities offering.

The matter described in the emphasis-of-matter paragraph would also be evaluated to determine whether it also requires mention in the comments on the unaudited condensed consolidated interim financial information (paragraph 5(b) of example A-1). If it is concluded that mention of such a matter in the comments on unaudited condensed consolidated financial statements is appropriate, a sentence would be added at the end of paragraph 5(b) in example A-1 and paragraph 4(b) of example A-2:

Reference should be made to the introductory paragraph of this letter, which states that our audit report covering the consolidated financial statements as of and for the year ended December 31, 20X5, includes an emphasis-of-matter paragraph that describes a lawsuit to which the company is a defendant, discussed in note 8 to the consolidated financial statements.

Example J: Alternate Wording When More Than One Auditor Is Involved

A92-13. Example J applies when more than one auditor is involved in the audit of the financial statements of a business, and the group engagement team has obtained a copy of the comfort letter of the component auditors (see paragraph 21). Example J consists of an addition to paragraph 4, a substitution for the applicable part of paragraph 5, and an addition to paragraph 6 of example A-1 and paragraph 3, 4, and 5 of example A-2, respectively.

[4]c. We have read the letter dated _____ of [the other auditors] with regard to [the related company].

5. Nothing came to our attention as a result of the foregoing procedures (which, so far as [the related company] is concerned, consisted solely of reading the letter referred to in 4(c)), however, that caused us to believe that...

6. . . . On the basis of these inquiries and our reading of the minutes and the letter dated _____ of [the other auditors] with regard to [the related company], as described in 4, nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, except in all instances for changes, increases, or decreases that the registration statement discloses have occurred or may occur.

Example K: Alternate Wording When the SEC Has Agreed to a Departure From Its Accounting Requirements

A92-14. Example K is applicable when (a) there is a departure from the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC, and (b) representatives of the SEC have agreed to the departure. Paragraph 2 of example A-1 would be revised to read as follows:

2. In our opinion [include the phrase except as disclosed in the registration statement if applicable], the consolidated financial statements and financial statement schedules audited by us and included (incorporated by reference) in the registration statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC; however, as agreed to by representatives of the SEC, separate financial statements and financial statement schedules of ABC Company (an equity investee) as required by Rule 3-09 of Regulation S-X have been omitted.

Example L: Alternate Wording When Recent Earnings Data Are Presented in Capsule Form

A92-15. Example L is applicable when (a) the statement of income in the securities offering is supplemented by later information regarding sales and earnings (capsule financial information), (b) the auditor is asked to comment on that information (paragraphs 50-51), and (c) the auditor has conducted a review in accordance with generally accepted auditing standards applicable to reviews of interim financial information of the financial statements from which the capsule financial information is derived. The same facts exist as in example A-1, except for the following:

- Sales and net income (no extraordinary items) share for the six-month peri-

ods ended June 30, 20X6 and 20X5 (both unaudited), are included in capsule form more limited than that specified by Financial Accounting Standards Board *Accounting Standards Codification* 270, *Interim Reporting*.

- No financial statements later than those for June 20X6 are available.
- The letter is dated July 25, 20X6, and the cut-off date is July 20, 20X6.

Paragraphs 4, 5, and 6 of example A-1 would be revised to read as follows:

4. For purposes of this letter, we have read the 20X6 minutes of the meetings of the stockholders, the board of directors, and [include other appropriate committees, if any] of the company and its subsidiaries as set forth in the minute books at July 20, 20X6, officials of the company having advised us that the minutes of all such meetings through that date were set forth therein and discussed with us the unapproved minutes of meetings held on [dates]; we have carried out other procedures to July 20, 20X6, as follows (our work did not extend to the period from July 21, 20X6 to July 25, 20X6, inclusive):

- a. With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—
 - (i) Performed the procedures specified for a review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information, on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the registration statement.
 - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in (a)(i) comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.
- b. With respect to the six-month periods ended June 30, 20X6 and 20X5, we have—
 - (i) Read the unaudited amounts for sales, net income, and earnings per share for the six-month periods ended June 30, 20X6 and 20X5, as set forth in paragraph [identify location].
 - (ii) Performed the procedures specified for a review in accordance with auditing standards generally accepted in the United States of America, applicable to reviews of interim financial information, on the unaudited condensed consolidated balance sheet as of June 30, 20X6 and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the six-month periods ended June 30, 20X6 and 20X5, from which the unaudited amounts referred to in (b)(i) are derived.
 - (iii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited amounts referred to in (b)(i) are stated on a basis substantially consistent with that of the corresponding amounts in the audited consolidated statements of income.

The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Also, they would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representations regarding the sufficiency of the foregoing procedures for your purposes.

5. Nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that—

- a. (i) Any material modifications should be made to the unaudited condensed consolidated financial statements described in 4(a)(i), included in the registration statement, for them to be in conformity with generally accepted accounting principles.
- (ii) The unaudited condensed consolidated financial statements described in 4(a)(i) do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.
- b. (i) The unaudited amounts for sales and net income for the six-month periods ended June 30, 20X6 and 20X5, referred to in 4(b)(i) do not agree with the amounts set forth in the unaudited condensed consolidated

financial statements for those same periods.

- (ii) The unaudited amounts referred to in 4(b)(i) were not determined on a basis substantially consistent with that of the corresponding amounts in the audited consolidated statements of income.
- c. At June 30, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6, unaudited condensed consolidated balance sheet included in the registration statement, except in all instances for changes, increases, or decreases that the registration statement discloses have occurred or may occur.
6. Company officials have advised us that no consolidated financial statements as of any date or for any period subsequent to June 30, 20X6 are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after June 30, 20X6 have, of necessity, been even more limited than those with respect to the periods referred to in 4. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (a) at July 20, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown on the March 31, 20X6, unaudited condensed consolidated balance sheet included in the registration statement; or (b) for the period from July 1, 20X6 to July 20, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales, or in income before extraordinary items or of net income. On the basis of these inquiries and our reading of the minutes as described in 4, nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, except in all instances for changes, increases, or decreases that the registration statement discloses have occurred or may occur.

Example M: Alternate Wording When Auditors Are Aware of a Decrease in a Specified Financial Statement Item

A92-16. Example M covers a situation in which auditors are aware of a decrease in a financial statement item on which they are requested to comment (see paragraphs 58-64). The same facts exist as in example A-1, except for the decrease covered in the following change in paragraph 5(b).

- b. (i) At May 31, 20X6, there was any change in the capital stock, increase in long-term debt, or any decrease in consolidated stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the registration statement, or
- (ii) for the period from April 1, 20X6 to May 31, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales, or income before extraordinary items or of net income, except in all instances for changes, increases, or decreases that the registration statement discloses have occurred or may occur and except that the unaudited consolidated balance sheet as of May 31, 20X6, which we were furnished by the company, showed a decrease from March 31, 20X6 in consolidated net current assets as follows (in thousands of dollars):

	Current Assets	Current Liabilities	Net Current Assets
March 31, 20X6	\$4,251	\$1,356	\$2,895
May 31, 20X6	3,986	1,732	2,254

6. As mentioned in 4(b), company officials have advised us that no consolidated financial statements as of any date or for any period subsequent to May 31, 20X6, are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after May 31, 20X6, have, of necessity, been even more limited than those with respect to the periods referred to in 4. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (a) at June 23, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown on the March 31, 20X6,

unaudited condensed consolidated balance sheet included in the registration statement; or (b) for the period from April 1, 20X6 to June 23, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income before extraordinary items or of net income. On the basis of these inquiries and our reading of the minutes as described in 4, nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, except in all instances for changes, increases, or decreases that the registration statement discloses have occurred or may occur and except as described in the following sentence: We have been informed by officials of the company that there continues to be a decrease in net current assets that is estimated to be approximately the same amount as set forth in 5(b) [or whatever other disclosure fits the circumstances].

Example N: Alternate Wording of the Letter for Companies That Are Permitted to Present Interim Earnings Data for a 12-Month Period

A92-17. Certain types of companies are permitted to include earnings data for a 12-month period to the date of the latest balance sheet furnished in lieu of earnings data for both the interim period between the end of the latest fiscal year and the date of the latest balance sheet and the corresponding period of the preceding fiscal year. The following would be substituted for the applicable part of paragraph 3 of example A-1.

3. . . . was to enable us to express our opinion on the financial statements as of December 31, 20X5, and for the year then ended, but not on the financial statements for any period included in part within that year. Therefore, we are unable to, and do not express any opinion on, the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the related unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the 12 months then ended included in the securities offering.

Example O: Alternate Wording When the Procedures That the Requesting Party Has Requested the Auditor to Perform on Interim Financial Information Are Less Than a Review in Accordance With Generally Accepted Auditing Standards Applicable to Reviews of Interim Financial Information

A92-18. The example assumes that the requesting party has asked the auditor to perform specified procedures on the interim financial information and report thereon in the comfort letter. The letter is dated June 28, 20X6; procedures were performed through June 23, 20X6, the cut-off date. Because a review in accordance with generally accepted auditing standards applicable to reviews of interim financial information was not performed on the interim financial information as of March 31, 20X6, and for the quarter then ended, the auditor is limited to reporting procedures performed and findings obtained on the interim financial information. The following would be substituted for paragraph 4(a) of example A-1. Example O assumes there has not been a change in the application of a requirement of generally accepted accounting principles during the interim period. If there has been such a change, a reference to that change would be included in subparagraph (a)(ii) that follows.

4. For purposes of this letter, we have read the 20X6 minutes of meetings of the stockholders, the board of directors, and [include other appropriate committees, if any] of the company and its subsidiaries as set forth in the minute books at June 23, 20X6, officials of the company having advised us that the minutes of all such meetings through that date were set forth therein and having discussed with us the unapproved minutes of meetings held on [dates]; we have carried out other procedures to June 23, 20X6, as follows (our work did not extend to the period from June 24, 20X6 to June 28, 20X6, inclusive):

- a. With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—
- (i) Read the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the registration statement, and agreed the amounts included therein with the company's accounting records as of March 31, 20X6 and 20X5, and for the three-month periods then ended.
- (ii) Inquired of certain officials of the company who have responsibility for

financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in (a)(i): (1) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the registration statement, and (2) comply as to form, in all material respects, with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC. Those officials stated that the unaudited condensed consolidated financial statements (1) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements, and (2) comply as to form, in all material respects, with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.

Example P: Intentionally Omitted (See example A-2)³

Example Q: Letter to a Requesting Party That Has Not Provided the Legal Opinion or the Representation Letter Required by Paragraph 11. A92-19. This example illustrates the letter to be provided in accordance with paragraph 11 in which the auditor does not provide negative assurance. This example assumes that these procedures are being performed at the request of the placement agent on information included in an offering circular in connection with a private placement of unsecured notes. The letter is dated June 30, 20X6; procedures were performed through June 25, 20X6, the cut-off date. The statements in paragraphs 4–8 of the example are illustrative of the statements required to be included by paragraph 12.

This example may also be used in connection with a filing under the 1933 Act when a party other than a named underwriter (for example, a selling shareholder) has not provided the auditor with the representation letter described in paragraph 11. In such a situation, this example may be modified to include the auditor's comments on independence and compliance as to form of the audited financial statements and financial statements schedules with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC. Paragraph 1(a)(ii) may include an inquiry, and the response of company officials, on compliance as to form of the unaudited condensed interim financial statements.

June 30, 20X6

[Addressee]

Dear Ladies and Gentlemen:

We have audited the consolidated financial statements of The Nonissuer Company, Inc. (the company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X5 and 20X4, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 20X5, and the related notes to the consolidated financial statements, all included in the offering circular for \$30,000,000 of notes due June 30, 20Z6. Our report with respect thereto is included in the offering circular. The offering circular dated June 30, 20X6, is herein referred to as the offering circular.

We are independent certified public accountants with respect to the company under Rule 101 of the AICPA's Code of Professional Conduct and its interpretations and rulings.

We have not audited any financial statements of the company as of any date or for any period subsequent to December 31, 20X5; although, we have conducted an audit for the year ended December 31, 20X5, the purpose (and, therefore, the scope) of the audit was to enable us to express our opinion on the consolidated financial statements as of December 31, 20X5, and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, we are unable to, and do not express any opinion on, the

unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the offering circular, or on the financial position, results of operations, or cash flows as of any date or for any period subsequent to December 31, 20X5.

1. At your request, we have read the 20X6 minutes of meetings of the stockholders, the board of directors, and [include other appropriate committees, if any] of the company as set forth in the minute books at June 25, 20X6, officials of the company having advised us that the minutes of all such meetings through that date were set forth therein and having discussed with us the unapproved minutes of meetings held on [dates]; we have carried out other procedures to June 25, 20X6, as follows (our work did not extend to the period from June 26, 20X6 to June 30, 20X6, inclusive):

- a. With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—
 - (i) Read the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows of the company for the three-month periods ended March 31, 20X6 and 20X5, included in the offering circular, and agreed the amounts included therein with the company's accounting records as of March 31, 20X6 and 20X5, and for the three-month periods then ended.
 - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in (a)(i) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the offering circular. Those officials stated that the unaudited condensed consolidated financial statements are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements.
- b. With respect to the period from April 1, 20X6 to May 31, 20X6, we have—
 - (i) Read the unaudited condensed consolidated financial statements of the company for April and May of both 20X5 and 20X6, furnished us by the company, and agreed the amounts included therein with the company's accounting records. Officials of the company have advised us that no financial statements as of any date or for any period subsequent to May 31, 20X6 were available. [if applicable: The financial information for April and May of both 20X5 and 20X6 is incomplete in that it omits the statements of cash flows and other disclosures.]
 - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether (1) the unaudited condensed consolidated financial statements referred to in (b)(i) are stated on a basis substantially consistent with that of the audited consolidated financial statements included in the offering circular, (2) at May 31, 20X6, there was any change in the capital stock, increase in long-term debt, or any decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6, unaudited condensed consolidated balance sheet included in the offering circular, and (3) for the period from April 1, 20X6 to May 31, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales, or in income before extraordinary items or of net income. Those officials stated that (1) the unaudited condensed consolidated financial statements referred to in (b)(ii) are stated on a basis substantially consistent with that of the audited consolidated financial statements included in the offering circular, (2) at May 31, 20X6, there was no change in the capital stock, no increase in long-term debt, and no decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6, unaudited condensed consolidated balance sheet included in the offering circular, and (3) there were no decreases for the period from April 1, 20X6 to May 31, 20X6, as compared with the

3. Example P was moved to example A-2 when SAS No. 72, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, Professional Standards, AU sec. 634), was redrafted for clarity and is intentionally blank to retain the letters assigned to the other examples.

corresponding period in the preceding year, in consolidated net sales, or in income before extraordinary items or of net income.

- c. As mentioned in 1(b), company officials have advised us that no financial statements as of any date or for any period subsequent to May 31, 20X6, are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after May 31, 20X6, have, of necessity, been even more limited than those with respect to the periods referred to in 1(a) and 1(b). We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (i) at June 25, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown on the March 31, 20X6, unaudited condensed consolidated balance sheet included in the offering circular or (ii) for the period from April 1, 20X6 to June 25, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income before extraordinary items or of net income.

Those officials referred to above stated that (i) at June 25, 20X6, there was no change in the capital stock, no increase in long-term debt, and no decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown on the March 31, 20X6, unaudited condensed consolidated balance sheet, and (ii) there were no decreases for the period from April 1, 20X6 to June 25, 20X6, as compared with the corresponding period in the preceding year, in consolidated net sales or in income before extraordinary items or of net income.

2. For purposes of this letter, we have also read the items identified by you on the attached copy of the offering circular and have performed the following procedures, which were applied as indicated with respect to the symbols explained below:

- ☑ Compared the amount with the company's financial statements for the period indicated and found them to be in agreement.
- ✓ Compared the amount with the company's financial statements for the period indicated included in the offering circular and found them to be in agreement.
- Ⓢ Compared with a schedule or report prepared by the company and found them to be in agreement.

3. Our audit of the consolidated financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements as a whole. For none of the periods referred to therein, nor for any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions, such as those enumerated above, and, accordingly, we express no opinion thereon.

4. It should be understood that we have no responsibility for establishing (and did not establish) the scope and nature of the procedures enumerated in paragraphs 1–3 above; rather, the procedures enumerated therein are those the requesting party asked us to perform. Accordingly, we make no representations regarding questions of legal interpretation⁴ or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraphs; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above as set forth in the offering circular. Further, we have addressed ourselves solely to the foregoing data and make no representations regarding the adequacy of disclosures or whether any material facts have been omitted. This letter relates only to the financial statement items specified above and does not extend to any financial statement of the company as a whole.

5. The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Had we performed additional procedures or had we conducted an audit or a review of the company's March 31, April 30, or May 31, 20X6 and 20X5 condensed consolidated financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.

6. These procedures should not be taken to supplant any additional inquiries

or procedures that you would undertake in your consideration of the proposed offering.

7. This letter is solely for your information and to assist you in your inquiries in connection with the offering of the securities covered by the offering circular, and it is not to be used, circulated, quoted, or otherwise referred to for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to, in whole or in part, in the offering circular or any other document, except that reference may be made to it in any list of closing documents pertaining to the offering of the securities covered by the offering document.

8. We have no responsibility to update this letter for events and circumstances occurring after June 25, 20X6.

Example R: Alternate Wording When Reference to Examination of Annual Management's Discussion and Analysis and Review of Interim Management's Discussion and Analysis Is Made

A92-20. This example is applicable when the auditor is making reference to an examination of annual MD&A and a review of interim MD&A. The same facts exist as in example A-1, except for the following:

- The auditor has examined the company's Management's Discussion and Analysis (MD&A) for the year ended December 31, 20X5, in accordance with AT section 701, *Management's Discussion and Analysis* (AICPA, *Professional Standards*).
- The auditor has also performed reviews of the company's unaudited condensed consolidated financial statements in accordance with generally accepted auditing standards applicable to reviews of interim financial information and the company's MD&A for the three-month period ended March 31, 20X6, in accordance with AT section 701.
- The accountant's reports on the examination and review of MD&A have been previously issued, but not distributed publicly; none of these reports is included in the securities offering. In this example, the auditor has elected to attach the previously issued reports to the comfort letter (see paragraph A33).

Appropriate modifications would be made to the opening paragraph of the comfort letter if the auditor has performed a review of the company's annual MD&A.

The following would be substituted for the first paragraph of example A-1: We have audited the consolidated financial statements of The Nonissuer Company, Inc. (the company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X5 and 20X4, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 20X5, the related notes to the consolidated financial statements, and the related financial statement schedules, all included in The Issuer Company's (the registrant) registration statement (no. 33-00000) on Form S-1 filed by the registrant under the Securities Act of 1933 (the Act); our reports with respect thereto are also included in that registration statement. The registration statement, as amended on June 28, 20X6, is herein referred to as the registration statement. Also, we have examined the company's Management's Discussion and Analysis (MD&A) for the year ended December 31, 20X5, included in the registration statement, as indicated in our report dated March 28, 20X6; our report with respect thereto is attached. We have also reviewed the unaudited condensed consolidated financial statements as of March 31, 20X6 and 20X5, and for the three-month periods then ended, included in the registration statement, as indicated in our report dated May 15, 20X6, and have also reviewed the company's MD&A for the three-month period ended March 31, 20X6, included in the registration statement, as indicated in our report dated May 15, 20X6; our reports with respect thereto are attached.

The following paragraph would be added after paragraph 3 of example A-1:

4. We have not examined any MD&A of the company as of or for any period subsequent to December 31, 20X5; although we have made an examination of the company's MD&A for the year ended December 31, 20X5, included in the registration statement, the purpose (and, therefore, the scope) of the examination was to enable us to express our opinion on such MD&A, but not on the MD&A for any interim period within that year. Therefore, we are unable to and do not express any opinion on the MD&A for the three-month period ended March 31, 20X6, included in the registration statement, or for any period subsequent to March 31, 20X6.

4. See paragraph A6 of this SAS.

A93.

EXHIBIT C: COMMENTING IN A COMFORT LETTER ON QUANTITATIVE DISCLOSURES ABOUT MARKET RISK MADE IN ACCORDANCE WITH ITEM 305 OF REGULATION S-K

A93-1. Regulation S-K, Item 305, Quantitative and Qualitative Disclosures About Market Risk, requires certain quantitative and qualitative disclosures with respect to derivative financial instruments, generally as defined in Financial Accounting Standards Board *Accounting Standards Codification*TM glossary.

A93-2. In addition to qualitative (that is, descriptive) disclosures, Item 305 requires quantitative disclosures that may be presented in the form of a tabular presentation, sensitivity analysis, or value-at-risk disclosures. Disclosures generally include a combination of historical and fair value data and the hypothetical effects on such data of assumed changes in interest rates, foreign currency exchange rates, commodity prices, and other relevant market rates. The quantitative and qualitative information required by Item 305 are disclosed outside the financial statements and related notes thereto.

A93-3. Item 305 does not meet the criteria in paragraph 65 for the auditor to provide comments on the Item 305 qualitative disclosures because the disclosures are descriptive and are not derived from the accounting records because they are hypothetical or forward-looking in nature.

A93-4. Although some information needed to comply with Item 305 is derived from the accounting records, registrants must also provide a substantial amount of information that is not derived from accounting records subject to internal control over financial reporting. As a result, Item 305 does not meet the criteria in paragraph 72 for the auditor to provide negative assurance on conformity with Item 305 of Regulation S-K.

A93-5. The three alternative forms of quantitative disclosures under Item 305 reflect hypothetical effects on market risk sensitive instruments and result in differing presentations. The forward-looking information used to prepare these presentations may be substantially removed from the accounting records that are

subject to internal control over financial reporting. Further, paragraph 68 also states that the auditor should not comment on matters merely because the auditor is capable of reading, counting, measuring, or performing other functions that might be applicable. Accordingly, an auditor's ability to comment on these disclosures is largely dependent upon the degree to which the forward-looking information used to prepare these disclosures is linked to such accounting records.

A93-6. The tabular presentation includes the fair values of market risk sensitive instruments and contract terms to determine the future cash flows from those instruments that are categorized by expected maturity dates. This approach may require the use of yield curves and implied forward rates to determine expected maturity dates, as well as assumptions regarding prepayments and weighted average interest rates.

A93-7. The term *sensitivity analysis* describes a general class of models that are designed to assess the risk of loss in market risk sensitive instruments, based upon hypothetical changes in market rates or prices. Sensitivity analysis does not refer to any one, specific model and may include duration analysis or other "sensitivity" measures. The disclosures are dependent upon assumptions about theoretical future market conditions and, therefore, are not derived from the accounting records.

A93-8. The term *value at risk* describes a general class of models that provide a probabilistic assessment of the risk of loss in market risk sensitive instruments over a selected period of time, with a selected likelihood of occurrences based upon selected confidence intervals. Value-at-risk disclosures are extremely aggregated and, in addition to the assumptions made for sensitivity analyses, may include additional assumptions regarding correlation between asset classes and future market volatilities. As a result, these disclosures are not derived from the accounting records.

A93-9. Of the three disclosure alternatives, the tabular presentation contains the most limited number of assumptions and least complex mathematical calculations. Furthermore, certain information, such as contractual terms, includ-



Accelerate your professional development with CPEExpress

Start and finish most CPE courses in as little as 1 to 2 hours

The AICPA's popular online learning library gives you unlimited 24/7 access to over 1,200 hours of high-quality CPE (900+ courses) for one low subscription price. **Subscribe now and get on the express lane to meeting CPE requirements with ease!**

With CPEExpress you get:

- Convenient one- and two-credit courses — more than 1,200 hours of CPE
- Just-in-time training at your fingertips
- Unlimited 24/7 access at one low annual subscription rate
- Special quarterly one-hour updates
- More technical content — more accounting, auditing, tax and management material
- A great ongoing reference tool

cpa2biz.com/cpeexpress | 888.777.7077

ed in a tabular presentation is derived from the accounting records. Accordingly, auditors may perform limited procedures related to tabular presentations to the extent that such information is derived from the accounting records subject to internal control over financial reporting.

A93-10. The modeling techniques and underlying assumptions utilized for sensitivity analysis and value-at-risk disclosures generally will be highly complex. The resultant disclosures may be substantially different from the basic historical financial input derived directly from the accounting records. Due to the hypothetical and forward-looking nature of these disclosures and the potentially limited usefulness of any procedures that may be performed, sensitivity analysis or value-at-risk disclosures do not meet the criteria in paragraph 65 for the auditor to agree to make any comments or perform any procedures related to sensitivity analysis or value-at-risk disclosures.

A93-11. When performing procedures related to tabular presentation disclosures, the auditor is required by paragraph 65 to consider whether the entity's documentation of its contractual positions in derivatives, commodities, and other financial instruments is subject to internal control over financial reporting and whether it provides a complete record of the entity's market risk sensitive instruments. In addition, the auditor is not permitted to express positive or negative assurance about the reasonableness of the assumptions underlying the disclosures.

A93-12. Item 305 requires registrants to stratify financial instruments according to market risk category, that is, interest rate risk, foreign exchange risk, and equity price risk. Item 305 stipulates that if an instrument is at risk in more than one category, the instrument should be included in the disclosures for each applicable category. The stratifications and the company's determination of market risk categories are not derived from the company's accounting records. Accordingly, the auditor is not permitted to provide any findings that the company's stratifications are complete or comply as to form with Item 305 requirements and should disclaim with respect to the company's determination of market risk categories.

A93-13. Item 305 encourages registrants to provide quantitative and qualitative information about market risk in terms of, among other things, the magnitude of actual past market movements and estimates of possible near-term

market movements. As market data is not derived from the company's accounting records, the auditor is not permitted to agree to perform any procedures related to such market data.

A93-14. Further, the auditor may need to utilize a specialist in performing procedures related to those disclosures.

A93-15. The following examples, based on example H of exhibit B, provide very simplified procedures, findings, and limitations related to Item 305 tabular presentation disclosures. In practice, the procedures generally will be substantially more complex.

[The following is an extract from a registration statement that illustrates how an auditor can document procedures performed on a tabular presentation of market risk disclosures made in accordance with Item 305 of Regulation S-K.]

INTEREST RATE SENSITIVITY

The following table provides information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date. The information is presented in U.S. dollar equivalents, which is the Company's reporting currency. The instrument's actual cash flows are denominated in both U.S. dollars (\$US) and German deutschmarks (DM), as indicated in parentheses.

Symbol	Procedures and Findings
Ö	Compared with a schedule prepared by the Company from its accounting records. We (a) compared the amounts on the schedule to corresponding amounts appearing in the accounting records and found such amounts to be in agreement, and (b) determined that the schedule was mathematically correct. However, we make no comment as to the appropriateness or completeness of the Company's classification of its market-risk-sensitive instruments into market risk categories, nor as to its determination of the expected maturity dates or amounts. (Note: This is an example of procedures related to tabular presentations of face amounts, carrying amounts, fair values, and notional amounts, which stratify such amounts as to interest rate risk.)
Ä	Compared with a schedule prepared by the Company from its accounting records to calculate weighted average fixed interest rates and weighted average fixed pay and receive rates and found such percentages to be in agreement. We (a) compared the amounts on the schedule to corresponding amounts appearing in the accounting records and found such amounts to be in agreement, and (b) determined that the schedule was mathematically correct. However, we make no comment as to the appropriateness of the Company's methodology in calculating weighted average fixed rates.
	(Note: It may be necessary to provide a more complete description of the procedures performed in other circumstances.) We make no comment as to the appropriateness or completeness of the Company's determination of the Regulation S-K requirements for quantitative and qualitative disclosures about market risks or with respect to the reasonableness of the assumptions underlying the disclosures.

Expected maturity dates							
	20X2 ¹	20X3 ¹	20X4 ¹	20X5 ¹	Thereafter ¹	Total	Fair Value
Liabilities							
Long-Term Debt:							
	(\$US equivalent in millions)						
Fixed Rate (\$US)	\$XXX	\$XXX	\$XXX	\$XXX	\$XXX	\$XXX Ö	\$XXX Ö
Average interest rate	XX%	XX%	XX%	XX%	XX%	XX% Ä	
Fixed Rate (DM)	XXX	XXX	XXX	XXX	XXX	XXX Ö	XXX Ö
Average interest rate	XX%	XX%	XX%	XX%	XX%	XX% Ä	
Variable Rate (\$US)	XXX	XXX	XXX	XXX	XXX	XXX Ö	XXX Ö
Average interest rate	XX%	XX%	XX%	XX%	XX%	XX% ¹	
Interest Rate Derivatives							
	(\$US equivalent in millions)						
Interest Rate Swaps:							
Variable to fixed (\$US)	\$XXX	\$XXX	\$XXX	\$XXX	\$XXX	\$XXX Ö	\$XXX Ö
Average pay rate-fixed	XX%	XX%	XX%	XX%	XX%	XX% Ä	
Average receive rate-variable	XX%	XX%	XX%	XX%	XX%	XX% ¹	
Fixed to Variable (\$US)	XXX	XXX	XXX	XXX	XXX	XXX Ö	XXX Ö
Average pay rate-variable	XX%	XX%	XX%	XX%	XX%	XX% ¹	
Average receive rate-fixed	XX%	XX%	XX%	XX%	XX%	XX% Ä	

1. Because these disclosures include either management's expectations of future cash flows or the use of implied forward rates applied to such expected cash flows, such information does not meet the criteria of paragraph 65. Accordingly, the auditor is not permitted to express findings on amounts in these columns.

CAREERS

Positions Available

Antioch ICF, Inc., 2893 El Camino Real Street, Redwood City, CA 94061. Position: Company Accountant. Hours: 35 - 40 hours/week. Salary: \$96,200.00/ year. Experience and requirements: Bachelor's Degree in Accounting, Business Administration or related and 5 years of related experience. Description of duties: Under the direction of the CFO and in collaboration with the company's independent CPA, as required by law, the Company Accountant is responsible for general, budget, cost and property accounting duties to include the following: prepare, examine, and analyze accounting records, financial statements, and other financial reports to assess accuracy, completeness, and conformance to reporting and procedural standards and advise CFO on company's present and projected financial standing; Prepare financial plans for various terms and budget proposals based on analysis of financial documents; Manage account monitoring; Review and correct accounting entries, reconcile payment discrepancies, and resolve client, insurance and Medi-Cal billing issues; Summarize transactions in standard formats and organize data in special formats employed in financial analysis; Prepare forms and manuals containing detailed financial information to support annual performance audit, tax preparation requirements and proposed budget plans; Assist with financial planning input and analysis, survey operations to ascertain accounting needs, and recommend, develop, and maintain solutions to operations and financial problems; Use computer technology to modify and document record-keeping and accounting systems as part of development and implementation of financial solutions; Organize, maintain, analyze and administer detailed records pertaining to medical equipment, real property (i.e. the company's four facilities) and other property owned or leased by the company; Prepare reports and statements reflecting property values, appreciation/depreciation, amortization and maintenance/servicing costs, etc.; Research and report on equipment, supplies, property and labor costs which may not be readily apparent in general accounting reports/books; Analyze and develop changes in delivery of services and procurement of equipment and supplies which reduce costs; Provide CFO with reports detailing results of analysis and recommendations; and Oversee control of expenditures in all areas including payroll, property maintenance, advertising/marketing, etc. To apply, contact: Recruitment and Employment Office, Antioch ICF, Inc. ATTN: Job Ref #: ANT33551, P.O. Box 56625, Atlanta, GA 30300.

Florida West Coast litigation/valuation boutique firm needs a CPA/CPA candidate with minimum 2-3 years business valuation experience. Additional credentials considered a plus (ASA, CFA, ABV, CBA) with the required experience. Salary commensurate with experience; assistance with relocation costs considered. Please respond to Email: JOA@russelljohns.com Box # 300, c/o Journal of Accountancy.

Senior Accountant - Bachelor's degree in Accounting, 5 years experience partly in home health care. Mail resume to Ameri Blue Health Care Services LLC, Attn: Rene Gaviola (Ref: SA-ZF), 3300 S. Gessner Road., Suite 111, Houston, TX 77063.

Venture 360 Construction in Fort Worth, TX seeks Controller. Duties: monthly closing, financial reports, GAAP, tax returns, budget and forecast, variance, job accounting, cost analysis, internal control, assist estimating. Master degree in Accounting, Finance, or Business required. At least 2 years experience. Fax resume with salary requirement to: (214) 447-9668.

PRODUCTS/SERVICES OPPORTUNITIES

Books/Publications

Set Yourself Free! For less than \$19, you can learn how to earn thousands in fees from existing clients! Learn the proven secrets from a fellow CPA with over four decades of consulting experience in his nearly 200-page book endorsed by leading authors, experts and small business owners who have utilized the strategies in the book and know firsthand that they work. Order a copy of "Set Yourself Free! How to Have a Thriving Small Business... And Enjoy It!" by Stan Simkins at: <https://www.createspace.com/3614502> an Amazon company, enter discount code CKJNH7TN to save \$5. Visit: www.setyourselffreeonline.com

Business/Professional Services

Peer Review Services - High quality, practical approach. Peer reviews since 1990. Review teams with recognized experts in the profession. David C. Pitcher, CPA / Gregory A. Miller, CPA; Davie Kaplan, CPA, P.C. (585) 454-4161, www.daviekaplan.com

Computer/Software



CheckMark Payroll Software

Now, run unlimited payrolls for only \$249. Stands alone and posts to GL. Great after-the-fact software.

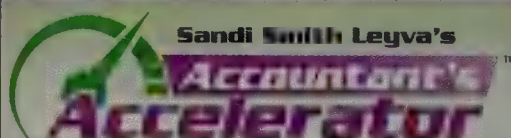
Forms 1099 Software

Runs unlimited 1099s. E-file or print 1099-Misc on blank perforated sheets. Save time & money. Starting at \$49.

Free Trial online

Contact us at info@checkmark.com or (800) 444-9922

Consulting



The hottest new practice growth program!
Go to: AccountantsAccelerator.com

Education

Master of Science in Taxation

- 100% ONLINE - No Residency Requirement
- Nationally Accredited
- Earn CPE Credit
- No Study Required During Tax Filing Season
- Total Tuition - less than \$11,000



Flexible Online Program Designed for Busy Accounting Professionals

William Howard Taft University

Learn More at:

Call Toll Free: (877) 355-7877 / www.Taft.edu

Financial Services

RIA REGISTRATION

Looking to expand your services? Why not financial services? We offer a turn-key solution for busy professionals to become a state or SEC registered investment advisor.

FOR MORE INFORMATION CALL TODAY.

800.441.1219

www.RIAFILING.com



Marketing

START-A-PRACTICE

Frank Salman CPA:

- 1) Started & operated 5 accounting practices.
- 2) Individually assisted over 2000 CPAs develop their practice.
- 3) Appeared in *Wall Street Journal* and *JOA* (April 2006 *Start Your Own Practice*).

"As we just concluded our first full year, I am pleased to let you know that we achieved our goal of generating \$200,000 in revenue from high-quality clients."

Kent, CPA, Las Vegas

NEW SEMINAR FOR 2011
6 hours of CPE for \$99

CALL TODAY: 760-952-2491
www.AccountantsMarketing.com

In Need Of A CPA?



Place your advertisement in Journal of Accountancy...

Do you know your audience?

We do - all 500,000 of them and *Journal of Accountancy* will help you reach that audience and get the results you need.

For further information, please contact us:
(800) 237-9851, Fax: (727) 445-9380
Email: joa@russelljohns.com
www.russelljohns.com

Marketing

Who wants to be a *Millionaire*?

NCI has created more million dollar plus practices than anyone *EVER* in our industry.

So be it for a million dollar plus firm or an additional \$50,000 in business, *NCI has a proven marketing plan to make a millionaire out of you.*

- \$ Guaranteed increases of \$50,000 to \$300,000, plus money-back guarantee
- \$ Thousands of successful programs implemented nationwide
- \$ Turnkey marketing programs installed at your location
- \$ Ongoing support *without* ongoing fees

for *free* information call
1-888-New Clients (1-888-639-2543)

View our Millionaire video testimonials at
www.newclientsinc.com

NCI New Clients, Inc.
Powering Your Growth

IMPROVE YOUR PRACTICE

- 1-Day Marketing Program
- Custom Websites
- Practice Management

*Learn how to improve the
quality of your CPA practice!*

(888) 999-9800 x1
www.buildyourfirm.com

FREE Brochure For Accountants - How to establish your fees. Go to www.mostad.com/fees or call Mostad & Christensen at: (800) 654-1654.

Practices For Sale

PAS
PROFESSIONAL
ACCOUNTING
• SALES •

Buy-Sell-Merge

25+ Years Nationwide Service
100% Financing Available

800-729-9031
www.cpasales.com

Are you tired of making employers rich? Utilize our proven system to build your CFO Services practice and earn what you're truly worth. Contact Ren Carlton: (800) 440-5266, www.globalcfos.com

Practices For Sale



AccountingBroker
Acquisition Group™

Maximize Value When You Sell Your Firm

**100% of Our Brokers
are Ex-Big 4 CPA's.**

Call for Free Report
800.419.1223

accountingbroker.com

PAY LESS To Sell Your Practice

Ready to Sell? Why Pay More?

NCI offers outstanding
service *for less.*

We provide:

- \$ Lower commission rate (call to see just how low!)
- \$ Huge database of qualified buyers
- \$ Expert negotiators – hundreds of successful sales completed

for more information call
1-888-New Clients (1-888-639-2543)

Looking to *Buy*? go to: www.newclientsinc.com

NCI New Clients, Inc.
Powering Your Growth

Practice Acquisition Financing

- FIXED rate and NO down payment financing options
- 100% bank-owned funding source (NASDAQ:SUSQ)

Contact **Paul Lee** at **856.756.3582**
or Paul.Lee@susquehanna.net

Subject to Credit Approval

Susquehanna
Susquehanna Commercial Finance

Practices Wanted

Broward County, Florida. Looking to retire? Need a smooth transition for your practice, with your clients well taken care of, while providing you an income stream? We are a 25 year established CPA firm that may be the perfect fit for you. We are looking for a practice with gross revenues up to \$300,000. Please email me at: frank@frankguttacpa.com if interested.

Advertising Index

(Publication of an advertisement in the Journal of Accountancy does not constitute an endorsement of the product or service by the Journal or AICPA.)

Accounting Practice Sales. 36

AICPA c/o Aon Insurance 13, 25

AICPA/CPA2Biz 15, 22, 23, 37, 55, 60,
. 61, 62–63, 72, 73, 75,
. 81, 83, 112, 100–101, C3

AICPA 12, 36

Becker Professional Education 1

BNA Tax Management 5

Carbonite 47

CCH, a Wolters Kluwer business. 2

Lockhart Industries 16, 65, C4

Manpower. 7

Sage Software 43

The Hartford. 9

Thomson Reuters C2, 11

US Bank 81

For advertising information, contact: joa@russelljohns.com

THE LAST WORD

During the summer before eighth grade, I was at a family picnic where an uncle asked me, “What do you want to be when you grow up?” I didn’t know. Then he asked what I liked in school. When I said, “Numbers,” he said, “You need to become a CPA.” I had never heard of that occupation before, but once he explained it to me, it sounded perfect; my future was set; and the rest, as they say, is history. I obtained my CPA in 1996, and I specialize in advising small businesses in financial matters and technology.

When I made my decision as a kid to become a CPA, I never dreamed I would put my skills to work in my own weekend “hobby business” as a toy dealer. The movie *Star Wars* debuted in May 1977. I didn’t see it once; I saw the movie at least a dozen times. When they started selling *Star Wars* action figures, I had to have them. Every Christmas, from 1977 to 1984, that’s all I wanted, and that’s all I played with. Unlike other kids, when I was done playing, I put them back in their original boxes. I didn’t know I was making them collectors’ items!

My friend and business partner, Jason Greene, had had a similar experience. When I met Jason in 1992 during college and learned we each had boxes full of *Star Wars* toys in our attics, we decided they might be valuable. Together with another friend, we went to our first toy show. We sold some, bought more; and we still had money left over for gas. We became hooked on toy dealing.

We now travel to four or five toy shows a year, mostly within a six-hour drive from home. The rest of the year we’re looking for deals on eBay and acquiring new collections. We buy toys in bulk; we like to buy entire collections. That way we may get a few choice pieces we can resell right away to collectors and sell off the more mediocre pieces over a period of time. We also find loose small pieces—swords, capes, guns—in those collections, which we match to other pieces to increase their value.

The temptation to collect is always with us, but after we had been in business for about a year, we realized that everything has a price and everything can be replaced. Once we got over

that hump and even let go of our “personal collections,” we knew we were dealers, not collectors. We’ve accumulated thousands of *Star Wars*, G.I. Joe and Mego action figures and accessories, which we store in a 10-by-20 building until the next toy show.

Occasionally, we get lucky and come across some rare stuff—for instance, Power of the Force figures on their card [original packing]. However, we’ve never been so lucky to come across a super-rare vinyl-caped Jawa figure on its card. Later versions of the Jawas (the short brown, caped scavengers that sold droids in the desert in *Star Wars*) came with cloth capes, which made the vinyl ones rare—so rare that one recently sold on eBay for \$6,400. As you can imagine, the vinyl cape is also a favorite object of counterfeiters.



Stanley “Chip” Majors, CPA/CITP
Partner, Wathen, DeShong & Juncker LLP
Beaumont, Texas

Some of the most expensive things we sell are boxed G.I. Joe vehicles from the 1960s and 1970s. Boxes are hard to come by because they were usually trashed. We might spend from \$40 to \$100 on a box, but once we put a loose vehicle in them, the boxed vehicle is worth from \$200 to \$400.

As a partner in Cosmic Collectibles, I am a small businessperson, and I’ve found that this has given me a closer connection to my CPA

clients. I have a greater understanding of the challenges they face each day. Even using QuickBooks in my business helps me relate better to them, since I encounter firsthand the issues they have in recording their transactions.

I love toys, and I admit I’ve gone a little crazy when it comes to buying some, especially Lincoln Logs and Legos for my daughters, who are now 14 and 6. When I was a kid, I only had one box of Lincoln Logs, which wasn’t enough to build much. So, I’ve bought the logs and Legos by the pound, and at least once a year we build an entire town complete with a shopping mall. The only rule I have about toys is to save the box and instructions. You never know when those toys will become collectors’ items.

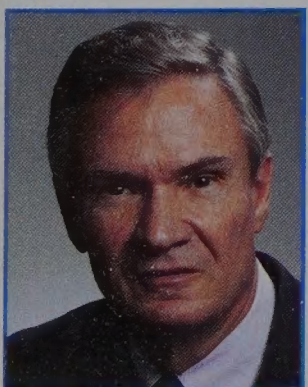
—As told to Linda Segall, linda@segallenterprises.com,
a freelance writer from Jacksonville, Fla.

AICPA National Tax Conference

Register to attend by September 23rd at the early-bird rate and save \$75 off the regular registration rate.
cpa2biz.com/nattax



IRS Commissioner Douglas H. Shulman speaks about fiscal issues and practical challenges in dealing with the complexities of tax administration.



John B. Breaux, Former Senator, & Co-Chair of President's Tax Reform Commission, discusses the political outlook for 2012

November 7-8, 2011

Marriott Wardman Park Hotel, Washington, DC

With access to key IRS staff and other leading experts, this conference cannot be missed. It offers unparalleled insight and information on tax law and legislation.

Don't miss:

- IRS and Emerging Tax Leader tracks
- A panel discussion on Estate Planning after the 2010 Tax Act
- Best tax ideas
- Financial Planning Roadmap Using Form 1040
- Advising a Senior Corporate Executive in Uncertain Times
- What every Tax Advisor Needs to Know about Hedge Funds
- Clients with Foreign Bank Accounts

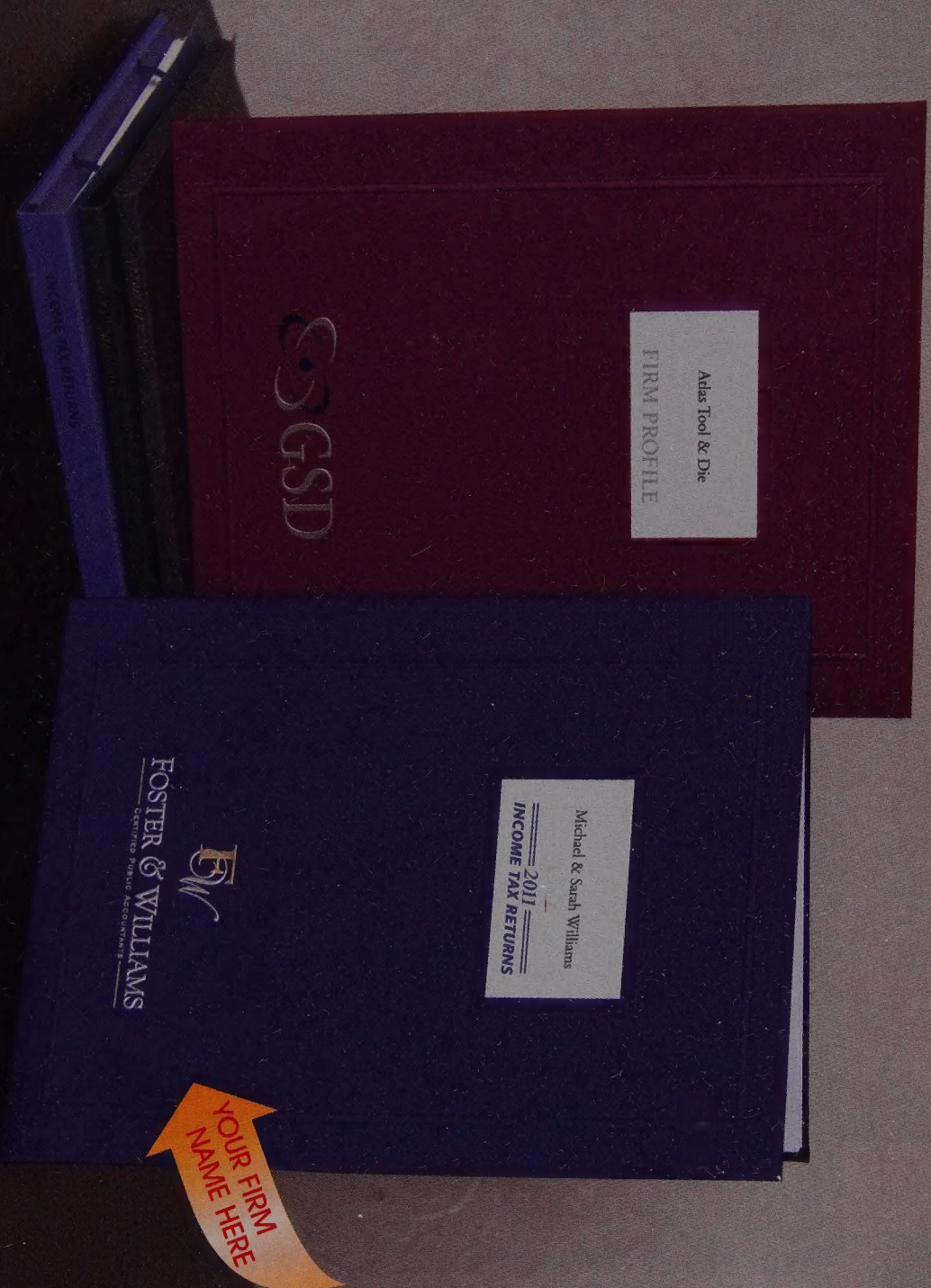
New this Year, "Ask the Commissioner"

Take advantage of this opportunity which allows you to submit questions to Commissioner Shulman via LinkedIn prior to the conference, and he will make his best effort to address them during his presentation.

Professional Work Deserves Professional Presentation

Design your Free Presentation Cover – with your firm name!

Limited
Time Offer



See first-hand how to deliver the "WOW!"
and get paid for all you're worth.
Call 800-966-2709 or visit the ALL NEW
www.LockhartAdvantage.com.

It just takes minutes to get started on
your free presentation cover today!
Nothing to sign. No credit card required.

Lockhart's World Class
Presentation Folders
& Report Covers

LOCKHART
Branding Your Image
...of Excellence

www.LockhartAdvantage.com (800) 966-2709

© Lockhart Industries, Inc. All rights reserved.